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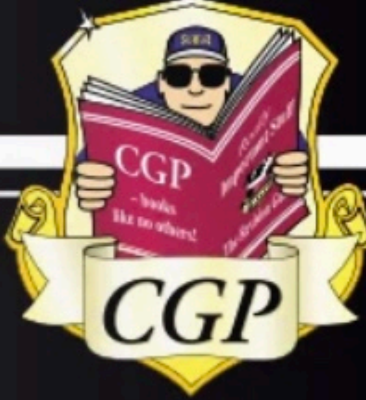
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The Exams

Before you start with your Business revision, it's worth getting to grips with what the exams will be like. The next few pages are all about what the examiners will look for, and the types of questions you might have to answer.

There Are **Two Exam Papers — Paper 1** and **Paper 2**

Paper 1

- Paper 1 is 1 hour and 45 minutes long.
- It's worth 90 marks and is 50% of your total Business GCSE.
- It'll test you on information from Theme 1 — Topics 1.1 to 1.5 of this book.

Paper 2

- Paper 2 is 1 hour and 45 minutes long.
- It's worth 90 marks and is 50% of your total Business GCSE.
- It'll test you on information from Theme 2 — Topics 2.1 to 2.5 of this book.

1) In both papers there'll be three sections.
2) Section A is a mixture of multiple choice, short and long questions. It's worth 35 marks.
3) Sections B and C are both based around a case study, which could include some data. You'll have to answer a mixture of short- and long-answer questions related to the information in each case study. Section B is worth 30 marks and Section C is worth 25 marks.

In this book, you'll find case studies followed by some questions. These case studies may be illustrative examples, or real-life businesses. You don't need to learn the details of these case studies, but you should have a go at answering the questions to help you with Sections B and C in the exams.

The Examiners are Looking for **Three Types of Skill**

There are basically three types of skill and knowledge that you need to show to get marks in the exams:

Demonstrate knowledge and understanding

- This skill is all about recalling, selecting and communicating.
- You need to show that you've got a really good understanding of the facts, and that you can use appropriate business terms, e.g. sole trader, marketing mix, revenue.

Apply knowledge and understanding

- This skill is all about applying what you know to different situations.
- Make sure your answer is relevant to the situation that's been described.
- For example, an exam question might tell you about a sole trader who wants to buy a new piece of equipment, and ask you to suggest how they could raise the necessary finance. Here, you wouldn't want to suggest that the company issue more shares since only a limited company can have shares and sole traders are unlimited (see pages 40-41).

Analyse and evaluate to demonstrate understanding, make judgements and draw conclusions

- This skill is all about using evidence to make judgements and reach conclusions.
- For example, if you recommend that a business raise money using a loan rather than an overdraft, you need to explain why, using what you know about finance.
- Your ideas need to be structured in a logical way so that your arguments make sense.
- Often, these questions won't have just one right answer. The important thing is using evidence from the question to support the conclusion you've come to.

REVISION TIP

You get marks for showing different skills in the exams...

Preparing for your exams involves more than just learning the material. Finding out what sections of the course are tested in each paper you'll sit means you can revise the right material for each exam.

Answering Questions

Doing well in Business is made a whole lot easier if you know how to answer the questions...

Make Sure you **Read the Question**

1) Command words are just the bit of the question that tell you what to do.
2) You'll find answering exam questions much easier if you understand exactly what they mean.
3) Here's a summary of the most common command words:

Command word	What to do	Marks
Give	This asks for a statement — you need to recall a fact from your GCSE Business course, and you don't need to back it up with evidence.	1 mark
State	Your answer should be a statement that's relevant to the context of the question.	
Define	You need to write down what a term means.	
Identify	You need to interpret data shown on a graph or in a table to get your answer.	
Calculate	Some questions ask for a bit of maths. Remember to show your working — if you do, you might still get one mark even if your final answer's wrong.	2 marks
Complete	You need to fill in the missing parts of some information you've been given (e.g. complete a table).	1 mark per thing to complete
Outline	You need to make two points about the business issue that are linked together — your answer needs to be in the context of the question.	2 marks
Explain	You need to make a statement then give two more points expanding on your statement — these can be two separate points, or one might be further expanding on the other.	3 marks
Discuss	You should give a long answer, which describes and explains a business issue.	6 marks
Analyse	'Analyse' means examine in detail. You should talk about the main features of the thing you've been asked to analyse in the question and then explain how these features affect the business. 'Analyse' questions are answered in the context of a case study (see next page). You will need to draw on the information you've been given to write your answer.	6 marks
Justify	You'll be given some information about a business in a case study and asked to choose between two options for what the business could do. You need to use the case study to consider the pros and cons and come to a conclusion that's backed up by the points you've made.	9 marks
Evaluate	You should discuss and analyse both sides of an issue using the information given in the case study (see next page). You should also bring in your own business knowledge that you've learnt from the course. Finish your answer with a conclusion that says what the most important considerations are and gives an overall judgement. For a more developed answer, your conclusion should consider the factors that your decision might depend on.	12 marks

Your final answer might depend on a factor that isn't mentioned in the case study — you should comment on that in your conclusion.

Answering Questions

You'll be asked different types of questions in the exams. Case study questions test if you can apply your knowledge and use evidence to make arguments and conclusions. Other questions will test your maths skills...

You'll be Tested on Your **Maths Skills**

- Maths is everywhere, and your GCSE Business exams are no exception.
  - You might be asked to do some calculations using financial data, or interpret a graph.
    - If you're doing a calculation question, make sure you write down any formulas you use and show your working — even if your final answer's wrong, you could still get a mark if your method was correct.
  - You won't be given any formulae in the exam, so make sure you learn them all off by heart.
- And don't forget to take a calculator to the exams.

You'll have to Answer Questions About **Case Studies**

- For questions that are based on case study information or on data, make sure you use evidence from the case study or data set as well as your knowledge of Business in your answer.
- For questions using 'justify' or 'evaluate' command words, there will usually be advantages and disadvantages of a situation to think about — to get all the marks, you'll need to give both sides of the argument before coming to a conclusion.
- Before you get started on your answer, read the case study and any data all the way through.
- For long-answer questions, it might help to write a quick plan to make sure you don't miss anything, and to make sure you show the skills you need from page 1.

You'll often have to consider how different parts of a business work together when answering case study questions.

Video Solutions

Throughout this book you'll find QR codes which will take you to video solutions for case study questions. Each video solution helps you tackle a different question type.

The example below, from page 50, tackles a 'justify' question.

You can access the main menu by scanning this QR code.

'Justify' Question

Sophie has narrowed the location of her café down to the two options in the table:

Option 1: Market Street
Option 2: Sutcliff Park

Justify which one of these two options Sophie should choose. **[9 marks]**

Video Solution

EXAM TIP

Read all the information before you start your answer...

Questions that are worth lots of marks in the exams are likely to be testing your judgement as well as your knowledge of business. For these questions, make sure you support your ideas with evidence — either from your own knowledge, or from information that's been given to you.

Enterprise

Businesses provide lots of useful things that customers want or need, which could be goods or services. For example, a new business might make chocolate (a good), or might fix computers (provide a service).

Businesses **Wouldn't Exist** Without **Enterprise**

1) Business enterprise is the process of identifying new business opportunities, and then taking advantage of them. It can involve starting up a new business, or helping an existing one to expand by coming up with new ideas.
2) All business activity needs to have at least one purpose. A purpose could be to:

1) Provide People with a **Good** or a **Service**

- A good is a physical item, such as a book or furniture.
- A service is an action performed by other people to aid the customer, such as hairdressing or plumbing.

A 'product' can be a good or a service.

2) Meet **Customer Needs**

- This means providing goods and services that people will want to buy.
- Customer needs often change so firms may need to change the products they sell to keep up.

3) **Add Value** to an Existing Product

1) This means a business finds a way to improve a product, so customers are willing to pay more for it compared to competitors' products.
2) There are several ways a business can add value to a product. For example, it could:

- Make a product more convenient for customers to get or use (e.g. a mobile hairdresser might be more convenient for customers than having to visit a hairdresser's salon).
- Build a good brand image for a product (see p.102) — customers will be more willing to spend money on the product as they'll recognise the brand and know that it's trustworthy and desirable.
- Improve the product's design or quality.
- Give the product a unique selling point (USP). This is some feature that makes it different from its competitors, which makes it an original product.

There are several reasons why businesses exist and make products...

Businesses generally want to make money, but they also have other reasons for existing. Make sure you know the different purposes that businesses can have, particularly how they can add value to an existing product.

Business Ideas

There are many reasons that business ideas can be developed, but the successful ones are usually for goods or services that people want to buy. This could be a totally new product, or an update to one that already exists.

New Business Ideas Come About for a **Variety** of Reasons

1) The world we live in is always changing, and so businesses must be dynamic and adapt to these changes.
2) This often results in people coming up with new business ideas.

- Many new business ideas come about from changes in technology. For example, the invention of tablets meant lots of people came up with ideas for apps that could be used on these devices.

- Some business ideas come about because of changes in what customers want. For example, these days people are much more concerned about the environment, so many businesses have started up that offer more environmentally friendly products.

- Sometimes, a good or service becomes obsolete — this means it's no longer used, usually because it has become out-dated and has been replaced by something else. Business owners have to come up with new ideas so that their business survives.

BUSINESS EXAMPLE

1) Advances in technology in the 1990s led to the development of the DVD as a way to record and play back media such as film.
2) This meant there was a new product that could be sold to people who wanted their own copies of their favourite television shows and movies.
3) Since they were more compact and resulted in better video and audio quality, they quickly began to make video tapes obsolete.
4) This meant businesses like video rental stores had to adapt in order to survive, by stocking DVDs instead of video tapes.

New Business Ideas Can be **Brand New** or **Improvements on Old Ideas**

New business ideas will either be completely original (there hasn't been anything like it before) or an adaptation of an existing product or idea (but the business will have found a way to improve it or make it more relevant to customers at the time).

BUSINESS EXAMPLE

1) In the 1970s, James Dyson came up with the idea of a vacuum cleaner that didn't need dust bags.
2) Customers wanted to buy the vacuum cleaner, as it meant they no longer had to buy replacement bags and the new vacuum cleaner didn't lose suction.

Businesses have to keep up with changes in customer demands...

The world is constantly changing, and so are new business ideas. A business idea that worked fifty years ago might not work now — enterprise has to change with the times. New technology drives a lot of new enterprise.

Entrepreneurship

Entrepreneurs take a lot of personal risks when they start a business — if a business fails they may have lost a lot of money and time. The entrepreneur has to decide if the risks are worth taking for the chance of reward.

Entrepreneurs Take Advantage of **Business Opportunities**

1) An entrepreneur is someone who takes on the risks of enterprise activity.
2) Entrepreneurs are really important — without them, we'd never have any new businesses.
3) To successfully run a new business, an entrepreneur must be able to:

Organise resources

Entrepreneurs have to have good organisational skills to keep on top of all the day-to-day tasks of running the business as well as planning for the future. E.g. they have to make sure the business has all the right resources (such as money and supplies) at the right time.

Take risks

There are lots of unknowns involved in running a business. The entrepreneur will probably give up their current job and invest money that they could lose if the business fails. They can write a business plan to work out if the business is a good idea (see p.49), but they can't know exactly what's going to happen before they start, so they have to be willing to take calculated risks.

Make business decisions

There are lots of decisions that need to be made when running a business, and not all of them are easy to make. For example, the entrepreneur needs to be able to decide on the business' aims, its structure, who to employ, how to grow and what to do if things start going wrong.

There are **Risks** and **Rewards** in Running a Business

Risks

- To start a business, an entrepreneur needs money to buy equipment and pay workers. An entrepreneur will often use their own money, but they'll probably need to raise more from banks or other investors as well (see p.35). If the business makes a financial loss, it won't be able to pay back all the money that's been borrowed (and it may struggle to survive).
- Entrepreneurs don't have much security when they are starting a new business. They'll usually have given up another job to follow their business idea, and if things go wrong they could lose money and end up without any job, which could have a huge impact on their quality of life.
- There's always a risk that a business will fail. So the entrepreneur risks the money, time and effort they put in to trying to make the business work.

Rewards

- For many entrepreneurs, one big reward is seeing their business idea become a success.
- If the business makes lots of profit, the entrepreneur could earn more money than they did before they started the business. This could give them a better quality of life.
- Being an entrepreneur can also be rewarding as it gives the entrepreneur the independence to choose what they do day-to-day, and what direction the business goes in.

EXAM TIP

There are no guarantees of success for new businesses...

You might get asked whether an entrepreneur should start a new business in the exam. So make sure you know the risks and rewards listed above, and can analyse information given in a case study.

Worked Exam Questions

Now you've seen why people choose to start new businesses, it's time to test what you've learnt.
Take a look at these worked exam questions to get an idea of how to write answers, then have a go yourself.

1 Explain **one** reason why an entrepreneur might find setting up a business rewarding.

[3 marks]

Sample Answer:

If the business succeeds then it could make a large profit, and the entrepreneur could make more money than before they started the business. This could give them a better quality of life.

This question has three marks, so you need to make three points — what happens if the business succeeds, what happens to the entrepreneur, and why this is rewarding.

2 Read the following information carefully and answer the questions that follow.

> Louise is starting a new company, Tasty Teas, which sells ready-cooked meals. In order to start up Tasty Teas, Louise has taken out a loan from her bank. Unlike similar products on the market, the ingredients Louise uses to make the ready-cooked meals are all ethically sourced and are very high quality. Louise also offers meal varieties that aren't available from other companies in the market.

a) Outline **one** risk to Louise of starting up Tasty Teas.

[2 marks]

Sample Answer:

Make sure you discuss a risk to new businesses, not one that more established businesses may face.

If Tasty Teas doesn't make a profit Louise might not be able to pay back the loan that she took out from the bank, and her business may fail.

b) Outline **one** way that Louise has added value to ready-cooked meals.

[2 marks]

Sample Answer:

Louise has sourced the ingredients ethically. Customers might be willing to pay more for the ready meals if they want to make sure the ingredients are ethically sourced.

You could also talk about how the quality of the ready meals is higher, or that Louise has added other meal varieties that competitors don't offer.

Exam Questions

1 Which of the following is a purpose of business activity?
Put a cross (✕) in **one** correct box.

A To employ entrepreneurs. ☐
B To provide goods. ☐
C To be sustainable. ☐
D To train employees. ☐

[1 mark]

2 Explain **one** benefit of building a good brand image for a product.

....

....

....

....

[3 marks]

3 Discuss the responsibilities an entrepreneur needs to fulfil in order to run a new business.

....

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[6 marks]

Markets

The word market can mean a few things — where something is being sold, what is being sold, and who it is being sold to. Businesses need to understand what their market is in order to be successful.

A **Market** can be a **Place**, a **Product** or a Group of **People**

The word market can mean three slightly different things:

1) A place where goods are traded between customers and suppliers. A village market square seems pretty different from an internet shopping website — but they're both examples of markets.

2) Trade in a particular type of product, e.g. the oil market.

3) The potential customers for a product, e.g. the age 18–25 market.

- Pop Culture Snackz is a small business that sells its products at a local farmers market.
- It sells flavours of popcorn inspired by films and TV shows — so its products are part of the food market.
- It aims to sell its products to teenagers and young people — e.g. the young adult market.

Competitors are the different businesses that sell the same products in the same market. They compete with each other over sales to customers.

It's Useful For Businesses to **Understand Markets**

- Businesses want to know about the market that they are in, and how well they are performing in it. For example, they may want to know the overall market size and the business' market share

- The market size is the number of individuals (including companies) within the market which are potential buyers or sellers of products. It can also mean the total value of products in the market.

- The market share of a business is the proportion of total sales within the market that is controlled by the business.

- Businesses sometimes carry out market research (page 11) in order to find out about a market and their place in it. It's also important for a business to carry out market research into its customers.

Businesses need to know their place in a market...

There are lots of things a business may want to understand about its market, and it's no good focussing on just one thing. For example, knowing the market share alone may not mean much — a business with a large share in a small market may still sell less than one with a small share in a large market.

Competition

The business world isn't one of those friendly 'it's the taking part that counts' types of competitions. Oh, no. Rival businesses will work as hard as they can to beat their competitors.

Competition Affects How Businesses **Make Decisions**

1) Most businesses face competition. To stand out in a competitive environment, businesses need to make decisions that will persuade customers to buy from them, rather than their competitors.
2) When making these decisions, the business might look at the strengths and weaknesses of its competitors in the following areas:

Price

Customers will often want to pay less for a given product. If all the products in the market are the same, then price becomes one of the most important factors affecting which products customers will buy. Therefore firms may decide to charge lower prices than they would like, to stop customers from buying elsewhere. However, this will mean that a firm may not make much profit per product sold.

Customer Service

Offering customer service can attract customers and may mean that customers will be willing to pay more money for a product (and having a reputation for poor customer service might put customers off). To stand out from the competition, a business might decide to train its staff in good customer service, or provide extra services (such as user training) when the customer buys the product.

Quality

Offering better quality products may mean that customers are more satisfied. This may mean that the business will be more competitive, even if its products are more expensive. In order to convince customers that their products are better than their rivals', businesses may decide to spend money on developing high quality products or on promotional material that emphasises quality. However, this will be costly for the firm.

Product range

Having a large range of products may make a business more attractive to customers. E.g. a greengrocer may be able to compete with a convenience store if it sells more types of fruit and vegetables, since customers will have a better selection in one place. A business may also try to fill any gap in the market (supply a previously unmet consumer need) by developing new products. There won't be any competition for the new products and the firm may appear more innovative than its competitors and so be more attractive to customers.

Location

Customers may be more likely to buy from a business if it sells products in a convenient place as they won't have the inconvenience of travelling or waiting for the product. Therefore businesses may decide to open stores in particular locations or to sell items online in order to offer the greatest convenience to customers as possible.

REVISION TASK

Businesses need to stand out from the competition...

Take a look at a few high street shops and note down their strengths and weaknesses in the five areas given above. Think of any changes the shops can make to beat their competition.

Introduction to Market Research

Market research involves finding out what customers want. Businesses can use this to improve their performance and make sure that they are making things that customers will be willing to spend money on.

Market Research is Used to **Understand Customers**

1) All businesses need their customers to buy their products, otherwise they won't survive.
2) One purpose of market research is to identify who the business' customers are. They can use market segmentation to help them do this (see p.15).
3) Market research can then be used to give businesses an understanding of their customers — e.g. what their needs are and how to satisfy them.
4) Customers' needs may include things like:
    - The type of product,
    - The quality of a product,
    - The price,
    - The convenience of where it is sold,
    - How much choice they have of a range of products (e.g. different colours or sizes).
5) By understanding customers' needs, businesses will be better able to make products that meet these needs. This will increase their sales and help to ensure the business' survival.

Market Research Helps to **Improve Businesses**

Using market research to understand customers and their needs helps businesses to:

Make informed decisions

Market research provides useful information to businesses to help them decide things like:

- What products to sell.
- Where to sell them and how to promote them.
- What price to sell them for.

Spot a gap in the market

1) Sometimes a group of customers will have a need that isn't being met. This is a gap in the market. A business will want to develop a way to meet the customers' needs before its competitors do.
2) This might mean developing a new product. Or it might mean selling an existing product in a new place or at a new price, or promoting it in a new way to convince customers they need it.

Reduce risks

1) If a business sells a product that customers don't want or tries to sell products at a price that's too high or in the wrong location, it could end up losing a lot of money.
2) Using market research to make informed decisions will help the business to avoid this and therefore help to reduce the risk of making costly mistakes.

You can't sell a product to an empty market...

Businesses that understand the market are more successful. Market research tells a business who their customers are, what customers want to buy, how much customers will spend, and where products should be sold.

Types of Market Research

You can have primary or secondary market research — you need to know about both types.

Primary Research is Doing Your Own Work

1) Primary research involves getting information from customers or potential customers.
2) Most forms of primary research involve asking customers for their opinions. For example, questionnaires (documents with questions that are given to people), surveys (collecting information from people, e.g. directly over the phone or using questionnaires) and focus groups (where a small group of people discuss their attitudes towards a product).
3) Observation involves (you've guessed it) observing what people do or say, instead of asking them.
4) Primary research is useful for finding out new information, and getting customers' views.
5) But a business can't ask every potential customer for their views — usually just a sample of people.
6) Large samples are the most accurate but also the most expensive. Small businesses may have to compromise here and use small sample groups to keep their costs down.
7) Businesses can also save on costs by carrying out research over the telephone or internet rather than in person — this is especially useful for small businesses.
8) Primary research provides data that's up-to-date, relevant and specific to the needs of your business. The research can also be specific to the target market.
9) But on the downside, it's expensive, and can be time-consuming.
10) Different types of primary research have different advantages and disadvantages. For example:

- Observations are really cheap and give accurate information, but also don't allow customers to give opinions — so the business will know what customers are doing, but not necessarily the reasons why.
- Questionnaires are cheap and can be used to sample a large geographic area, but it's likely that many people won't respond.
- Phone surveys have a much higher rate of response but they can be more expensive.
- Focus groups are faster than surveying several people individually, but may mean that quieter individuals do not get their opinion heard.

Secondary Research is Looking at Other People's Work

- Secondary research allows access to a wide range of data — not just the views of their sample groups. It's useful for looking at the whole market, and analysing past trends to predict the future.

- It involves looking at things like market research reports, government reports, and articles in newspapers and magazines and on the internet.

- It's often used by small businesses as it's cheaper than primary research, and the data is easily found and instantly available.

- Disadvantages of secondary research are that it's not always relevant to your needs, it's not specifically about your products, and it's often out of date.

Businesses have to choose what type of market research to use...

Market research is crucial for new businesses — they need to decide what they want to find out about the market and then choose the best method for collecting the data. Getting the wrong data is a waste of resources.

Types of Market Research

The internet and social media have changed how market research data can be collected. What hasn't changed is the types of data there are — you need to know the difference between quantitative and qualitative data.

Social Media Can be Used for Market Research

1) Social media includes websites such as Facebook, TikTok and Instagram.
2) These sorts of sites allow people to create profiles of themselves on the internet. That includes listing the things that they enjoy.
3) Businesses can sometimes collect this information and use it for their market research. For example, they can see what sorts of things are popular or are increasing in popularity.
4) Business can also track how internet users interact with the firm's online content, e.g. the number of times a link is clicked or the amount of time people spend on a web page.

BUSINESS EXAMPLE

- Social media allows users to provide a clear positive response to something quickly and easily (e.g. a 'like').
- A business can post about a new feature or product, and use the 'likes' it receives, or the results of a poll, to see how many people are interested in it.
- They can also look at the types of people (i.e. segments of the market — see p.15) who have responded to the social media post.
- This can help them to craft their promotional material (see p.102) to make the most of the people who are already interested in it, or to make the product seem more appealing to those who showed less interest.

Data Can be **Quantitative** or **Qualitative**

1) Suppose you want to do some market research about chocolate pizza. You can find out two kinds of information.

Quantitative data

- Quantitative information is anything you can measure or reduce to a number.
- Asking "How many chocolate pizzas will you buy each week?" will give a quantitative answer.

Qualitative data

- Qualitative information is all about people's feelings and opinions.
- Asking "What do you think of chocolate pizzas?" will give a qualitative answer.
- Qualitative data is tricky to analyse because it's hard to compare two people's opinions.
- However, allowing customers to voice their opinions is likely to give a greater depth of information.

2) Good market research will use both types of information.
3) All market research data needs to be reliable — this means that its results can be repeated by another researcher. Reliable market research represents the people that the business is interested in accurately. The more reliable the data is, the more useful it is for a business.

REVISION TIP

Similar words, different data...

Remember that quantitative comes from the word quantity — if you can measure or count something, it's quantitative. Qualitative data is information that can't be measured with numbers.

Using Market Research

Market research data can be used to see if a business has any problems or how it might improve. It's important to collect the right kind of data, though, and to have data that's reliable.

You Need to be Able to **Interpret Market Research**

You can use the results of market research to inform decisions a business should make — such as ideas about the products it sells, how it promotes itself, its pricing or the place it sells its products — these things are all part of the marketing mix (see p.46). For example:

BUSINESS EXAMPLE

1) 'Zany Juice Ltd' wanted customers' views of their damson juice. They sent a questionnaire to 2000 of their existing customers.
2) The collected data is shown on the right. An analysis of this data could look something like this:

> 'The results show that more than a quarter of the sample group have made a trial purchase of damson juice. This shows that the company's advertising for the product is successfully attracting customers. However, very few of these customers go on to make repeat purchases. This suggests that there is a problem with the product itself. Zany Juice Ltd need to consider changing the product, or dropping it altogether.'

Q1a: How many times have you purchased damson juice?

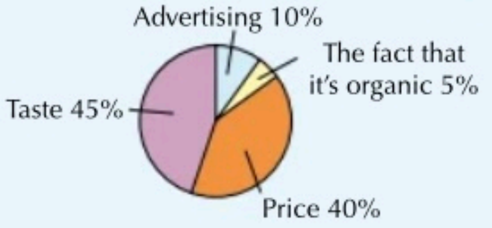
Response	Number
Never	1290
Once	580
Twice	80
Three times	40
Four or more times	10

Q1b: If you answered 'once', would you buy it again?

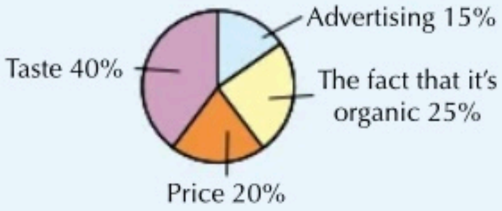
Response	Number of customers
Yes	60
No	520

3) These pie charts show the results of Zany Juice Ltd's research into why people buy their products, carried out in 1998 and 2023.

Reasons for buying Zany Juice — 1998



Reasons for buying Zany Juice — 2023



4) An analysis of the charts would include points like...
   - Taste was the most important factor in both years.
   - More people bought Zany Juice because it's organic in 2023 than in 1998.
   - Price decreased in importance from 1998 to 2023.
5) Because of this research, Zany Juice might change their promotional material to emphasise the taste and environmental friendliness of the drink.
6) It's important that the quality of the product stays the same, but price has become less important to customers, so it might be possible to increase the price of the drink, without decreasing sales by too much.

EXAM TIP

Market research data can be analysed to produce reports...

You could be given some data from questionnaires, or other research, during the exam, which you may be asked to analyse. Turning raw data into percentages can make them easier to compare.

Market Segmentation

Segmenting a market can help a business to figure out who exactly they are most interested in selling to.

Markets are **Segmented** into **Different Groups** of People

1) As well as knowing market size and shares (p.9) it can be useful to know how a market is segmented.
2) Segmentation is when people within a market are divided into different groups.
3) Knowing the different market segments can allow businesses to identify their target market — this is the specific group of people that a product is aimed at (see below).
4) They can then create a marketing strategy aimed at their target market (a targeted marketing strategy) to make sure that their marketing is as effective as possible.

Methods of **Segmentation**

1) A market can be segmented by its demographics. These are identifiable characteristics that people within one population might have. For example:

Marketing is all about coming up with a product that people will buy, and then making it as easy as possible for them to buy it — see p.46 for more.

Age

For example the teenage market, or "grey power" (the over-55s).

Income

How much different people earn will affect what they are willing to buy.

2) But demographic isn't the only way to segment a market. Other ways include:

Location

Customers in different locations want different products. For example, there is a market for jellied eels in London, but they won't sell as well in the rest of the UK.

Lifestyle

Whether or not people enjoy certain activities, e.g. walking, cycling or reading.

BUSINESS EXAMPLE

Some mobile phone companies have segmented the market by age. For example, some produce mobile phones that are marketed towards older customers. These phones include features to appeal to older users, such as larger buttons and hearing aid compatibility.

Different segments of the market want to buy different products...

Targeting marketing at the right segment is important to avoid wasting money. A TV advert for a stair-lift wouldn't do very well in the middle of a children's television programme, but might during a daytime quiz show.

Mapping the Market

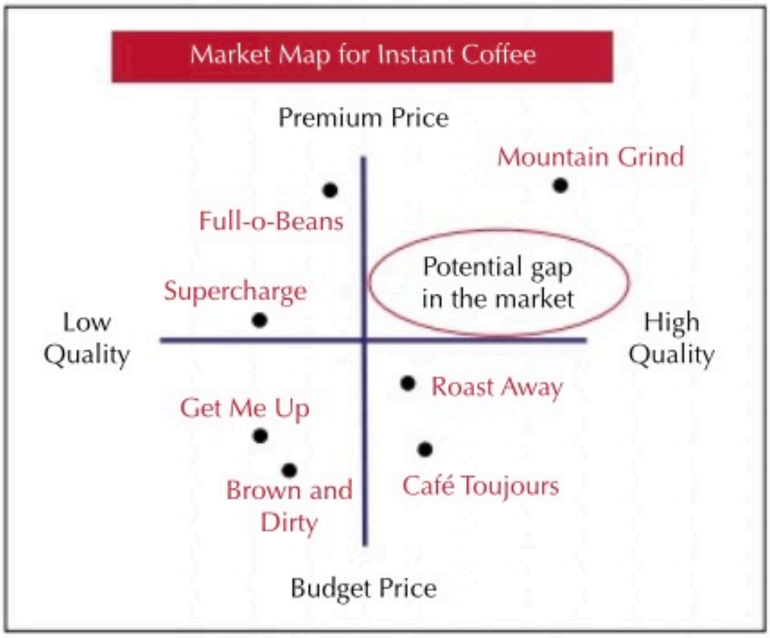
Businesses can also use market research data to create a market map so that they can really zone in on what other products are out there, and what they need to do to increase sales.

Businesses **Map the Market** to **Find Information**

1) Mapping the market helps a business understand its location within the market, and the market's key features. Market maps are often in the form of a diagram (see below).
2) A business can use a market map to find out the following bits of information:

- Competitors selling similar products — and how customers perceive them.
- Any gaps in the market — see p.11.

3) Market maps like the one below show two variables — in this case, price and quality, but they could be almost anything.



4) The map allows a business to see how customers perceive key features of its competitors' products — e.g. their pricing and quality strategies.
5) They can also easily see if there is any part of the map with no products — i.e. a potential gap in the market.
6) Once they have spotted a potential gap in the market, the business will need to use market research to confirm whether or not there is demand for the type of product which they have identified.
7) If they identify that there is demand for this type of product, then there is a gap in the market. So the business can focus on creating products with the features needed to fill the gap. This will help the business to be different from the competition and so increase its sales.

It's a good idea for businesses to use different types of information...

A blank area in the map doesn't necessarily mean that there is a gap in the market — if there is no customer demand for a product in that area of the map, a business won't make much money from making that product. So businesses must use information from the market map and market research to make a good decision.

Case Study — Topics 1.1 and 1.2

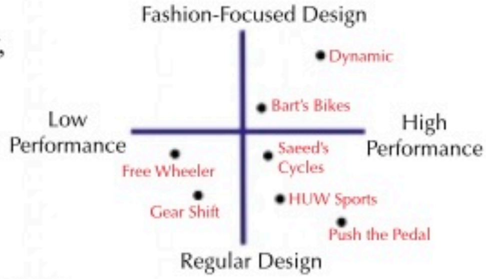
That's almost it for Spotting a Business Opportunity, but first here's a lovely case study to bring everything together. Before you start, have a look back at Topic 1.1 as well. Trust me, it'll help you.

Business Report: Enterprise, Entrepreneurship and Spotting a Business Opportunity

Cycling Clothing

Ankita enjoys cycling, and has noticed an increase in the number of people who cycle regularly. She is considering leaving her current job and setting up a business making clothing for cyclists. Ankita would aim to develop a strong brand image for her company through selling clothing that is well-designed and comfortable. She is considering whether to target people who cycle to commute, or people who cycle to race.

Ankita does some internet research and finds that the percentage of people cycling to work has increased from 2.8% to 4% over the last four years. She also sends out a survey to people at her work and asks anyone who cycles to respond. The survey asks how people perceive existing companies who provide clothing for cyclists. From the results of this survey, she produces the market map shown on the right. In the survey, she also asks the cyclists why they cycle, and to describe what they look for when buying cycling clothes. From this, she finds that 73% of the respondents only cycle to commute and that they prioritise how fashionable the clothing is. 20% of the respondents attend cycling races, so are more interested in having high performance clothing. On average, commuters spend 45% less on cycling clothing than those who attend cycling races.



Case Study Questions

One case study, questions from two topics. Better get cracking.

1. **State** one risk Ankita will face if she decides to start her own business. **[1 mark]**
2. **State** the type of market research Ankita is conducting by doing internet research. **[1 mark]**
3. **Outline** one benefit to Ankita of carrying out market research. **[2 marks]**
4. **Analyse** the impact of Ankita's market research on her choice of target market. **[6 marks]**

'Outline' Question

Outline one way in which Ankita will add value to her cycling clothing. **[2 marks]**

Video Solution

Worked Exam Questions

Have a look at the following worked exam questions. They'll give you an idea of the types of question you may see in the exams, and there are lots of hints here on how to go about answering them.

1 Read the following information carefully and answer the questions that follow.

Ananda owns a sportswear company, WorkOut Ltd. Ananda's clothes are targeted at individuals who are 25-35 years old, and who exercise regularly. He spends a large amount of money researching customer preferences in sportswear and ensuring that customers who own his products enjoy them and find them attractive. His products are relatively expensive. His brand is not very well known except amongst fitness experts. He sells his products directly to the owners of gyms, who are then responsible for selling the products to the customers in their gyms. Ananda's main competition is from a sportswear shop, Get Sweaty Ltd., which sells a wider range of clothing at lower prices, but the quality is lower.

a) Identify **one** advantage that Ananda has over the competition.

[1 mark]

Sample answer:

Ananda has higher quality products than Get Sweaty Ltd.

You could have also said that Ananda may have a better location to sell his products as he sells in gyms.

b) Outline **one** way in which Ananda has segmented the market.

[2 marks]

Sample answer:

Ananda has segmented the market by age, as he is targeting people who are aged between 25 and 35 years old.

You could also say lifestyle here, as he's targeting people who regularly exercise.

You should briefly explain what WorkOut Ltd. can do once it's identified its target market, and the benefit to the business of doing this.

c) Outline **one** reason why it is beneficial for WorkOut Ltd. to use market research to identify its target market.

[2 marks]

Sample answer:

Identifying its target market means that WorkOut Ltd. can create a targeted marketing strategy, which will mean that it doesn't waste money by marketing its products to the wrong customers.

There are lots of advantages to using market research to identify a target market, such as making the business more likely to succeed, and reducing risks.

Exam Questions

1 Which of the following is a type of customer needs? Put a cross (☒) in **one** correct boxes.

A low unit costs ☐
B convenience of where the product is sold ☐
C the market share of a business ☐
D the type of promotion used ☐

[1 mark]

2 Which of the following is an example of secondary market research? Put a cross (☒) in **one** correct box.

A focus groups ☐
B a survey ☐
C market reports ☐
D questionnaires ☐

[1 mark]

3 Read the following information carefully and answer the questions that follow.

A small publishing company called Best Publications is creating a new magazine for dog owners. It decides to carry out a number of focus groups throughout the process of making the magazine. They also carry out market research using social media.

a) Outline **one** factor that Best Publications should consider when carrying out the focus groups.

....

....

[2 marks]

b) Outline how Best Publications may use social media in its market research.

....

....

[2 marks]

Before one of their early focus groups, the managers decide to leave a selection of magazines in the room where it is taking place. They then see which magazines the members of the focus group choose to browse through.

c) State what type of primary research Best Publications has used in this case.

....

[1 mark]

[Total 5 marks]

Revision Summary for Topics 1.1 and 1.2

There you go, a little bit on why people start up businesses and then some of the research that they can do to make sure their business idea is sound. Now, time for some questions to see how you're doing so far.

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

For even more practice, try the quiz for Topics 1.1 & 1.2 — just scan this QR code!

Topics 1.1 & 1.2 Quiz

Enterprise and Entrepreneurship (p.4-6) ☐

1) What is enterprise? ☐
2) Give three purposes of business activity. ☐
3) Explain why a firm might try to make a product more convenient for the customer. ☐
4) What does USP stand for? ☐
5) Explain three reasons why new business ideas come about. ☐
6) What is an entrepreneur? ☐
7) List three things an entrepreneur must be able to do in order to run a successful business. ☐
8) Explain three rewards an entrepreneur might get from setting up a business. ☐

Markets and Competition (p.9-10) ☐

9) Describe three meanings of the term 'market'. ☐
10) List five areas where a business may compare itself to its competitors. ☐
11) Describe two factors about a business that can make it stand out from its competition. ☐

Market Research (p.11-14) ☐

12) Why is it important for a business to understand a customer's needs? ☐
13) Give three types of business decisions which may be informed by a business' market research. ☐
14) Explain how market research can help a business to reduce its risks. ☐
15) What is the main difference between primary market research and secondary market research? ☐
16) Give four methods of primary market research. ☐
17) Give two methods of secondary market research. ☐
18) Explain whether a small firm is more likely to use primary or secondary market research. ☐
19) Give one example of how a business may use social media for its market research. ☐
20) What is the difference between quantitative and qualitative market research? ☐
21) What is meant by reliable market research? ☐

Market Segmentation and Mapping the Market (p.15-16) ☐

22) Why might a firm want to segment a market when conducting market research? ☐
23) Give four different ways of segmenting a market. ☐
24) Give two pieces of information which a business might find out from a market map. ☐

Business Aims

Businesses need to have aims — overall goals that they want to achieve. A number of business aims are based on the amount of money or the number of sales a business want to make. These are financial aims.

Financial Aims Can be Measured in Terms of **Money**

Survival

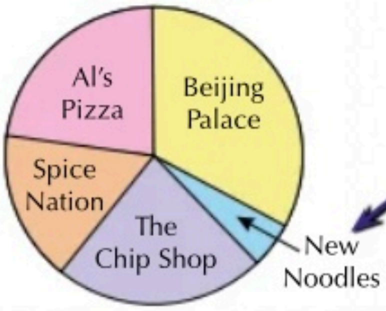
Around 60% of new firms close within five years of starting, so just surviving is the main and most important short-term aim of all new businesses. This means the business needs to have enough money to stay open, e.g. to buy stock and pay staff.

Maximise Profit

The vast majority of firms will aim to maximise profits. However, it may take a few years for a new firm to make any profit at all.

Increase Market Share

Market share tells you what percentage of a market's total sales a particular product or company has made. When a business first starts up it has zero market share... so one of its first aims is to capture a part of the market and establish itself. It can then aim to increase its market share by taking sales away from competition, or by persuading new customers to enter the market and buy its products.



Beijing Palace has a big market share already, but New Noodles might want to try and increase its share of the market.

Maximise Sales

Increasing sales is a good way for a business to grow its market share. The business can monitor sales in terms of how many of a particular product it sells, or by how much money it takes in from selling its products. This is not the same as maximising profit. For example, a business might reduce prices in order to increase sales, but selling products more cheaply means it won't make as much profit (see page 27).

Achieve Financial Security

Many businesses will depend on external sources of finance such as loans or the business owners' personal savings when they first start. So an aim for a new business is likely to be achieving a point where it can depend on its own revenue to fund its activities (i.e. its sales go beyond its break-even point — see p.27).

Business decisions are made to help achieve a business' aims...

Having aims is important for a business. Managers use aims to make decisions about how the business should be run. And having aims means anyone interested in the business can work out what the business is all about.

Business Aims and Objectives

Aims can be pretty vague and overwhelming for a business. Luckily, aims can be broken down into bite-sized chunks — objectives. Objectives are like mini aims (there's more on these on the next page).

There May be Non-Financial Aims for Starting a Business

Many new businesses have aims that aren't centred around money. These aims include:

1) Accomplishing a personal challenge — some people want the challenge of setting up and running a new business. And if the risks pay off, there could be big rewards (see p.6).

2) Achieving personal satisfaction — some people want the satisfaction that comes with owning their own business, particularly if their company allows them to follow an interest. E.g. a history-lover might set up a tour company for a historical site. Being interested in what they do can a give a person a lot of job satisfaction.

3) Gaining independence and control — some people might want the independence of being their own boss. This means they have control over what they do each day, and make the decisions about how the business will be run. They might have flexible working hours, meaning it's easier to fit work around other commitments, like childcare.

4) Doing what's right for society — some firms want to make sure they are acting in ways that are best for society and that society believes are morally right (e.g. many consumers think that it's wrong to test cosmetics on animals).

Objectives Help Businesses **Achieve** Their **Aims**

1) Once a firm has established its aims, it needs to set business objectives.
2) Just like with aims, there are different types of objectives. They can be related to survival, profit, market share, sales, financial security, personal reasons or social issues.

Objectives are **Measurable**

- Objectives are more specific than aims — they're measurable steps on the way to the aim. E.g. if a firm's aim is to maximise sales, an objective might be to increase income from sales by 30% over two years.
- Once objectives have been set they act as clear targets for firms to work towards.
- They can then be used later to measure whether a firm has been successful or not.

REVISION TASK

It's not just about making money...

Cover this page and write down the non-financial aims that businesses can have. Once you're confident you've learnt them, have a go at finding examples of businesses with those aims.

Business Aims and Objectives

There are several things a business needs to consider when deciding what its aims and objectives will be — the business' size, age and owners, as well as the competition it faces within the market.

Not All Companies Have the **Same Aims and Objectives**

The different aims of a business determine how they set objectives and measure their success.

BUSINESS EXAMPLE

1) Cathy owns a bike hire business.
2) The business has a social aim to improve the fitness of primary school children in the local area.
3) To achieve this aim, Cathy sets the following objectives:
   - To train two volunteers to teach children how to ride a bike.
   - To work with a local primary school to offer an after-school cycle club.
   - To teach 30 children to ride a bike during the first school year of the project.
   - To speak to her local councillor about setting up a cycle path in the local park.
4) After a year, she can look back and see how well these objectives have been achieved. She can then adjust them if necessary in order to continue working towards her aim.

There are different factors that affect the aims and objectives of a business. For example:

The size and age of the business

Many small and new businesses are likely to focus on survival and growth. As firms grow and become more established they may concentrate more on achieving financial security, and increasing sales and market share. Larger businesses get more attention from the public, so they might set social aims and objectives to try to avoid bad publicity.

Who owns the business

For small businesses that are owned by only one or a small number of people (e.g. sole traders and partnerships — see p.40), non-financial aims and objectives such as achieving personal satisfaction may be more important than growing sales or market share, especially when the business is still young. For companies that are owned by many shareholders (e.g. private limited companies — see p.41) there may be pressure to have aims and objectives focused on maximising profit so shareholders get more money.

The level of competition the business faces

If a business is in a highly competitive market, it might focus on survival or maximising sales. If a firm doesn't face much competition, its aims and objectives may be focused more on increasing market share and maximising profits.

Business aims and objectives can change over time...

Over time a business may grow, or shrink, and have new owners. The market may also change, and the aims of the business will be altered by all these factors. So a business that starts out with non-financial aims may end up with financial aims to maximise profit, or the other way around.

Worked Exam Questions

Businesses need aims and objectives in order to have direction. Test that you've understood the first part of this section by looking at these worked exam questions and trying the exam questions on the next page.

1 Read the following information carefully and answer the questions that follow.

> Karen Booth is opening Karen's Sarnies, a small sandwich shop in Nantwich, Cheshire. Karen previously worked in a small café, but is opening a new business so she can have more control over the menu she serves and the ingredients she uses. In her first year, Karen's main aim is for the business to survive. For the years after that, Karen has other aims, such as to maximise profit.
> One of Karen's main competitors will be Rye Ltd., a café in the neighbouring street. Rye Ltd. has been open for ten years and is popular within the town.

a) State **one** non-financial aim that Karen Booth has for her business.

[1 mark]

Sample Answer:

To have control over the menu and ingredients used in the business.

You could also say that Karen aims to have more independence.

b) Outline **one** reason why the aims for Rye Ltd. are likely to be different to the aims for Karen's Sarnies.

[2 marks]

Sample Answer:

Rye Ltd. is a more established company than Karen's Sarnies, so the aims are more likely to be focused on increasing market share and profits rather than survival.

You get one mark for explaining why the aims will be different, and one for stating a difference in their aims.

c) Outline **one** reason that Karen's Sarnies might set objectives as well as aims.

[2 marks]

Sample Answer:

Business objectives are more specific than aims, so they would allow Karen to measure how well she has done in a precise way compared to if she just set out an aim.

You need to state a reason that a business will set objectives...

...then explain why it will be useful to Karen's business.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

At the start of 2017, Ole opened Merino, a business selling Scandinavian knitwear in the UK. When he started the company, he set and stuck to the following aims:

1. To make knitted garments using pure wool, sourced from Scandinavia.
2. To have sales of over £120 000 per year by the eighth year.

Ole also set the company yearly sales targets, increasing to £120 000 for the eighth year.

For the first three years, Ole was selling his knitwear on the internet. Then, in 2020, a retailer with three outlets in his local area started stocking his products. In 2022, Ole put some adverts for his company in a national newspaper. This led to many more orders on his website, and in 2023 a national department store offered to start stocking his products. This offer would increase Ole's sales from the current level of £150 000 per year to a predicted £180 000 per year. However, in order to make products at a cost that the department store would be willing to pay, Ole would have to start using a cheaper, synthetic wool. Ole decided to decline the offer from the department store, and continue selling his products through other outlets.

a) Outline **one** reason Ole set himself yearly sales targets.

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[2 marks]

b) Analyse the impact on Merino of Ole sticking to his aims.

....

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....

[6 marks]

[Total 8 marks]

Revenue and Cost

You won't be given the equations on this page in your exam — so make sure you learn them off by heart.

Revenue is the **Income** Earned by a Business

1) Businesses earn most of their income from selling their products to customers.
2) Revenue can be calculated by multiplying quantity of units sold by the price (the amount the customer pays).

Revenue = quantity sold × price

If Light Up Sport Ltd. sell 20 000 tennis balls at £2 each — their revenue will be £40 000.

BUSINESS EXAMPLE

Costs are the **Expenses Paid Out** to Run the Business

1) Fixed costs don't vary with output (the amount a business produces). They have to be paid even if the firm produces nothing. For example, the rent, insurance, fixed salaries for employees and advertising.
2) Variable costs are costs that will increase as the firm expands output. For example, the costs of factory labour, raw materials and running machinery.

Total variable cost = quantity sold × variable cost per unit

3) Fixed costs are only fixed over a short period of time — an expanding firm's fixed costs will go up.
4) The total costs for a firm are the fixed and variable costs added together:

Total costs = total variable costs + total fixed costs

Interest is **Added** to **Loans** and **Savings**

You can calculate the total repayment by multiplying the monthly repayment by the number of months the firm is taking to repay the loan.

1) When a business borrows money, it will usually have to pay it back with interest — this is a charge for borrowing money. So the business will pay back more than was borrowed.
2) Interest can be written as a percentage of the original amount borrowed. To find the amount of interest that a business has paid on a loan just use the following equation:

$$\text{Interest (on loans)} = \frac{\text{total repayment} - \text{borrowed amount}}{\text{borrowed amount}} \times 100$$

Light Up Sport Ltd. took out a loan of £10 000. It paid off the loan and interest to a total of £10 600. So interest on the loan was 6%.

$$\text{Interest} = \frac{10\,600 - 10\,000}{10\,000} \times 100$$
$$= (600 \div 10\,000) \times 100 = 6\%$$

BUSINESS EXAMPLE

3) Interest is also added on to savings. So a business can also earn money through interest on savings.

If businesses don't have enough to cover costs they can take out a loan...

Banks make money by loaning money — customers have to pay back more (interest) than they borrowed in the first place. A business in need of financial help will decide where to get it from and find the best interest rates.

Profit and Break-Even Analysis

A business needs to know how much money they have left from revenue after costs have been taken into account. The business will break even if they make enough to cover costs.

Businesses Make a Profit if They **Earn More** Than They **Spend**

Profit (or loss) is the difference between revenue and costs over a period of time.

Profit = revenue – costs

BUSINESS EXAMPLE

Light Up Sport Ltd. sells 20 000 tennis balls in a month at £2 each.
Over the same month its total costs are £30 000.
Profit = (20 000 × £2) – £30 000 = £40 000 – £30 000 = £10 000
So the business makes £10 000 profit in the month.

If costs are higher than revenue, the business will make a loss instead of a profit, and the answer to the calculation above will be negative.

Breaking Even Means **Covering Your Costs**

1) The break-even level of output or break-even point is the level of sales (or output) a firm needs in order to just cover its costs.
2) It can be measured by the number of units a firm needs to sell to break-even.

$$\textbf{break-even point in units} = \frac{\textbf{fixed cost}}{\textbf{sales price} - \textbf{variable cost per unit}}$$

3) Or it can be measured by the revenue the firm needs to make to cover its costs:

Break-even point for revenue (or costs) = break-even point in units × sales price

4) If a firm sells more than the break-even point, it'll make a profit — if it sells less, it'll make a loss.
5) New businesses should always do a break-even analysis to find the break-even level of output.

BUSINESS EXAMPLE

- Pin-Chit Ltd. make padlocks. They have fixed costs of £2000, and the variable cost per unit is £2. The selling price is £4.
- Their break-even output = 2000 ÷ (4 – 2) = 2000 ÷ 2 = 1000 units
- So the firm will break even if it makes and sells 1000 units.
- The break-even point for revenue = 1000 × 4 = £4000
- This means that the firm should have a revenue of £4000 in order to break even.

6) A low break-even output is good for a business as it won't have to sell as much to make a profit.

EXAM TIP

Show your working for calculation questions...

You could be asked to calculate profit and break-even points in your exam. Make sure you understand the equations, and show your working so the examiner knows how you have calculated your answer.

Break-Even Analysis

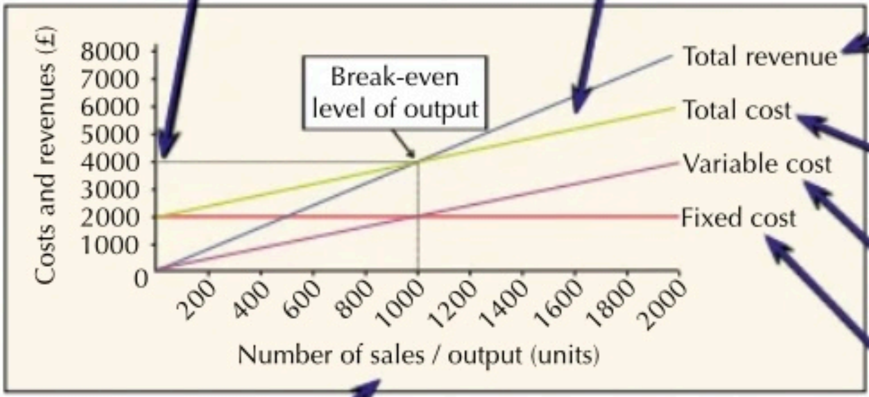
The total costs and revenue from a product will change with the amount that a business makes. Businesses can use break-even diagrams to see how many units of a product they have to make for it to be profitable.

Break-even Diagrams Show the **Effect** of **Output Changing**

A break-even diagram has number of sales or output on the x-axis, and costs and revenues on the y-axis.

To find the break-even point for costs or revenue, find the point at which the line for total costs crosses the line for total revenue. Then draw a line across to the y-axis and read off the value.

The difference between the total cost and the total revenue at any point on the graph tells you the profit (or loss) a firm will make at that level of output.



The total revenue increases as more units are sold.

The total cost includes both the fixed and variable costs.

The variable cost rises with output.

The fixed cost doesn't change.

To find the break-even output, just find the point at which the line for total costs crosses the line for total revenue. Then draw a line down to the x-axis and read off the value.

If the output is higher than the break-even output, the firm will make a profit. If the output is lower than the break-even output, the firm will make a loss.

BUSINESS EXAMPLE

The break-even diagram above is for Pin-Chit Ltd. You can see that:

- Fixed costs are £2000. Variable costs increase £2 for every unit sold. So, total costs start at £2000 and increase £2 for every unit sold.
- Total revenue rises £4 for each unit sold (since the price of each padlock is £4).
- The break-even level of output is 1000 units or £4000.
- Total costs (and variable costs) are rising at a slower rate than revenue. So, as output increases, profit per unit also increases.

Businesses have to make sure to cover their costs...

Ideally, businesses would make a profit all the time, but if it's not possible then breaking even is the next best thing. If the costs of a product are too high for the business to break-even then it will be in financial trouble.

More on Break-Even Analysis

Even more on break-even analysis here — this time, how to find the margin of safety for a given level of output. This is an easy way of seeing how much a business' output can fall before it starts making a loss.

You Need to be Able to Find the **Margin of Safety**

1) The margin of safety for a firm is the gap between the current level of output and the break-even output.
2) You can find the margin of safety using the following equation:

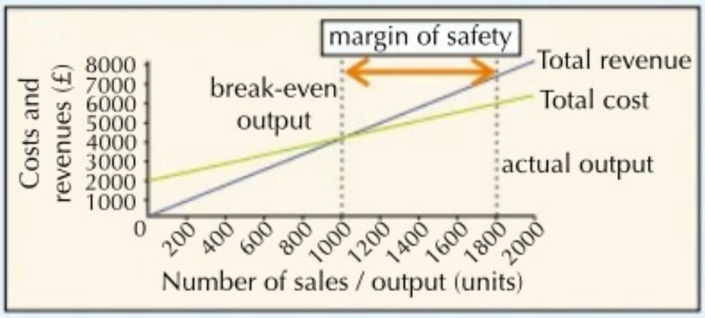
> Firms forecast how much they are likely to sell in a given period of time. These predictions are often based on previous sales and their best guess.

margin of safety = actual sales (or budgeted sales) – break-even sales

3) The firm will use budgeted sales if it is trying to forecast its future margin of safety. The budgeted sales will be the sales that it expects to make.

BUSINESS EXAMPLE

- Pin-Chit Ltd. need to sell 1000 units in order to break even (see previous page).
- In one financial year, the company sold 1800 units.
- The margin of safety for the company was therefore 1800 – 1000 = 800 units.
- This means that the firm's output would have to fall by 800 units the next year before it would start to make a loss.
- You can also show Pin-Chit Ltd.'s margin of safety using a break-even diagram:



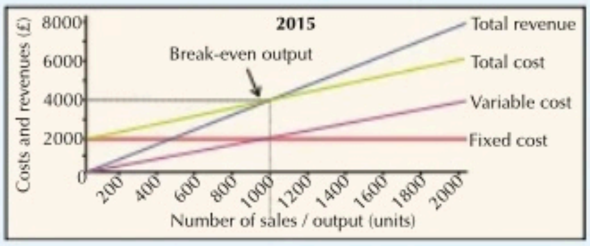
Revenue and Costs May **Change**

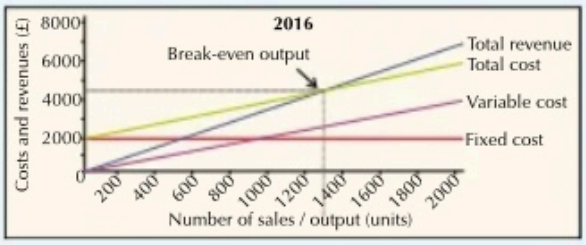
1) Break-even diagrams can also be useful for seeing how changes in revenue and costs may affect the break-even output.
2) For example, the rate at which revenue changes may decrease if the firm decides to lower its prices. The rate at which costs change may also increase or decrease, e.g. if the cost of supplies changes.

BUSINESS EXAMPLE

The two break-even diagrams below show the effect of Pin-Chit Ltd. lowering its prices from £4 per unit in 2015 to £3.50 per unit in 2016 on the break-even output.

The break-even output has increased in 2016. The decreased price has meant that the firm has to sell more padlocks in order to break even.





Making a profit isn't guaranteed...

If a business changes its prices or costs it needs to make sure that it won't start making a loss on its products.

Worked Exam Questions

There are quite a lot of equations to learn and understand in this section. Make sure you have them down by going through the worked exam questions below, then doing the exam questions on the next page.

1 A new business makes scarves and sells them for £7. **Figure 1** shows the number of scarves sold by the business in three years and the total costs for each year.

	Year 1	Year 2	Year 3
Number of scarves sold	850	450	1200
Total revenue (£)	5950	3150	....
Total costs (£)	4700	3600	6200

Figure 1

a) Using the information provided, calculate the total revenue for Year 3.
Show your working.

[2 marks]

Sample answer:

revenue = sales × price

revenue = 1200 × 7 = £8400

Show all the steps in your working — including writing down any equations you use.

total revenue = £ 8400..................

b) Identify the year in which the business made a loss.

[1 mark]

You should use the information in the table to find the answer.

Sample answer:

Year 2

To find the year when the firm made a loss, you need to find the year when total costs are greater than total revenue.

2 A café takes out a bank loan of £5000 to redecorate and buy new kitchen equipment. They agree to make twenty monthly repayments of £275.

Calculate the interest rate on the loan.
Show your working.

[2 marks]

Sample answer:

Total repayments = 20 × 275 = £5500

You need to use the monthly repayment amount to calculate the total repayment amount.

$$\text{Interest} = \frac{\text{total repayment} - \text{borrowed amount}}{\text{borrowed amount}}$$

$$\text{Interest} = \frac{5500 - 5000}{5000} \times 100 = 10\%$$

Then calculate the interest rate.

interest rate = ...10........ %

Exam Questions

1 Read the following information carefully and answer the questions that follow.

Ryan has a business, Fully Charged Ltd., which sells mobile phone chargers over the internet. In 2020 he performed a break-even analysis for his business, which is shown in **Figure 1**. His variable costs were £2 per unit. In 2023, Ryan changed his supplier of charger parts. The new supplier increased the variable costs for Fully Charged Ltd. by 25% per unit. As a result of using this new supplier, Ryan increased the price of each charger from £4 to £5. Ryan performed a new break-even analysis after these changes, which is shown in **Figure 2**.

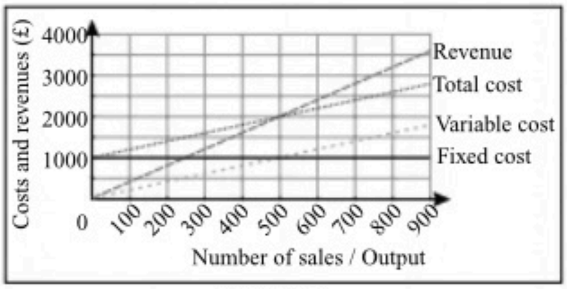


Figure 1

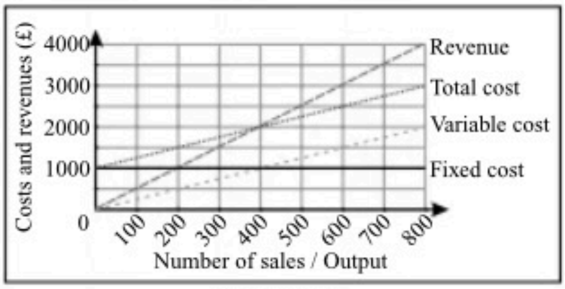


Figure 2

a) Identify the fixed costs for Fully Charged Ltd.

....

[1 mark]

b) Ryan sold 800 units in 2020.
Calculate his predicted margin of safety for this period using **Figure 1**.
Show your working.

margin of safety = ...

[2 marks]

c) Analyse the impact that changing to the new supplier may have had on Fully Charged Ltd.

....

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[6 marks]

[Total 9 marks]

Cash Flow

Cash means the money that a business has available to spend. Businesses need cash to pay costs (outflow), and gain cash from products being sold (inflow). It's important that a business can manage inflow and outflow.

Cash is Not the Same Thing as **Profit**

1) Cash is the money a company can spend immediately.

2) A business needs cash in order to pay:
   - employees
   - suppliers
   - overheads (these are ongoing expenses, e.g. rent or lighting).

3) Profit is the amount of money a company earns after costs have been taken into account. So a business can make a profit if it earns more than it spends but still run out of cash if it uses its profits to invest in other assets for the business.

Assets are valuable items owned by the business (e.g. equipment, buildings), or money owed to the business.

4) Cash flow is the flow of all money into and out of the business.

5) When a firm sells its products, money flows in (cash inflow).
When it buys materials or pays wages, money flows out (cash outflow).

Net cash flow = cash inflows – cash outflows for a given period of time

6) If a company has positive cash flow then there is more cash inflow than cash outflow for a particular time period.

7) Positive cash flow means that a company has no problem in making payments. However, it may also mean that the company is losing opportunities to invest in ways that might improve it (e.g. in new equipment).

8) Positive cash flow is still not the same thing as profit, though — a company may make a profit if overall it earns more than it spends, but still have poor cash flow (e.g. if cash inflow does not occur in time to make cash outflow requirements).

Businesses can't pay their bills if they don't have any cash...

It's pretty self-explanatory when you think about it — you can't pay for goods or services if you don't have any money. It's all very well having lots of assets, but you can't pay your employees in machinery.

Cash Flow Forecasts

It's not enough for businesses to know their current cash flow — they need to anticipate problems that could happen in the future. That's where cash flow forecasts come in, to help businesses see when more cash is needed.

Cash Flow **Forecasts** Help Firms to **Anticipate Problems**

1) A cash flow forecast lists all the inflows and outflows of cash that appear in the budget (a forecast of all of the firm's likely expenses and revenue).
2) It can be used to show when the firm may face a lack of cash. A lack of cash could lead to the firm failing, because it may be unable to pay its debts (this is called insolvency), unless it sells off its assets.
3) The firm can use the forecast to determine when it will need a short term source of finance to cover its costs.

BUSINESS EXAMPLE

Here's an example of a cash flow forecast for a firm publishing football magazines.

Cash Flow Forecast — Footy Fanzines Ltd.

	April	May	June	July	August	Sept
Total receipts (cash inflow)	15 000	12 000	5000	5000	16 000	16 000
Total payments (cash outflow)	12 000	12 000	10 000	10 000	12 000	12 000
Net cash flow (inflow – outflow)	3000	0	(5000)	(5000)	4000	4000
Opening balance (bank balance at start of month)	1000	4000	4000	(1000)	(6000)	(2000)
Closing balance (bank balance at end of month)	4000	4000	(1000)	(6000)	(2000)	2000

Numbers in brackets are negative.

closing balance = opening balance + net cash flow

The opening balance for a month will be the closing balance for the previous month.

- In June and July, when the football season's over, the net cash flow is negative because more money flows out than in.
- The firm can see it will need a source of extra finance to get it through from June to September.
- It's useful to know this in advance because it means the firm can plan — it won't suddenly have to panic in June when it starts to run out of money.

Cash flow forecasts can help prevent businesses running out of cash...

Cash flow is quite easy once you've understood how the figures are worked out. Make sure you can understand the figures in that table, and that you know why cash flow is super important.

Cash Flow — Credit

A firm's cash flow will change if they give their customers longer to pay for products — this is called credit.

Credit Terms Can Affect **Cash Flow**

Credit terms tell you how long after agreeing to buy a product the customer has to pay.
This can affect the timings of a business' cash flows.

BUSINESS EXAMPLE

1) Stuffin's Turkeys Ltd. sell most of their products in December.
2) This table assumes customers pay when they purchase the product.

Cash Flow Forecast — Stuffin's Turkeys Ltd.

	October	November	December	January	February	March
Total receipts(cash inflow)	800	1500	12 000	300	500	300
Total payments (cash outflow)	3000	4000	2000	300	200	150
Net cash flow	(2200)	(2500)	10 000	0	300	150
Opening balance (bank balance at start of month)	3000	800	(1700)	8300	8300	8600
Closing balance (bank balance at end of month)	800	(1700)	8300	8300	8600	8750

3) The table below assumes customers are given two months credit to pay.
4) It's a bit more complicated, as the total receipts come in two months after the sale is made.

Cash Flow Forecast — Stuffin's Turkeys Ltd.

	October	November	December	January	February	March
Total sales this month (for payment in two months)	800	1500 Payment made in 2 months	12 000	300	500	300
Total receipts (cash inflow)	200	200	800	1500	12 000	300
Total payments (cash outflow)	3000	4000	2000	300	200	150
Net cash flow	(2800)	(3800)	(1200)	1200	11 800	150
Opening balance (bank balance at start of month)	3000	200	(3600)	(4800)	(3600)	8200
Closing balance (bank balance at end of month)	200	(3600)	(4800)	(3600)	8200	8350

5) The main differences are:
   - when customers pay immediately there is only one month where extra finance is needed.
   - when they pay on two months credit the business will need to arrange extra finance for 3 months.

In February, the total receipts are for the turkeys bought in December. So net cash flow is 12000 – 200 = 11800

REVISION TIP

Sales aren't paid for immediately when customers are given credit...

Credit makes things a bit trickier when cash inflow happens later than sales. So if you understand the cash flow forecasts on this page you'll be set for whatever forecasts are thrown at you in the exam.

Sources of Finance — Small Business

You need to know about the different sources of money for firms and some of the pros and cons of each.

Firms **Need Finance** for Five Reasons

1) New firms need start-up capital (the money or assets needed to set up a business).
2) New firms often have poor initial cash flow — this means that they find it hard to cover their costs (see p.27), so they need additional finance to cover this.
3) Sometimes customers delay payment, so finance is needed to cover this shortfall in (lack of) cash.
4) If a business is struggling, it may need additional finance to meet its day-to-day running costs.
5) Firms may need finance in order to expand — e.g. to buy larger premises.

Small Firms Have **Several Sources** of **Start-up Finance**

Short-term sources will lend money for a limited period of time. Examples include:

Trade Credit

Businesses may give firms one or two months to pay for certain purchases. This is useful for a small firm as they have time to earn the money needed to pay the debt. However, if the firm makes the payment too late, they could end up with a large fee. Paying off the debt will increase the firm's costs, especially if there's a fee, so it will need to make sure that it can cover these costs.

Overdrafts

These let a firm take more money out of its bank account than it has paid into it. Overdrafts can allow businesses to make payments on time even if they don't have enough cash. However, they usually have a higher interest rate (see page 70) than other loans and the bank can cancel an overdraft at any time. If it isn't paid off, then the bank can take some of the business' assets.

Long-term sources can either be paid back over a longer period of time — usually more than a year, or don't need to be paid back at all. These sources include:

- LOANS (loan capital) — e.g. bank loans are quick and easy to take out. Like overdrafts, they are repaid with interest and if they aren't repaid, the bank can repossess the firm's assets. However, the interest rate for loans is usually lower than for overdrafts. The business may have to pay the loan back in monthly instalments, which will increase their fixed costs. Before taking out the loan, the business should check that they can still break-even (see p.27) with this increase in costs.
- PERSONAL SAVINGS — A business owner may put some of their own money into the business to get it started or if it is having cash flow problems (see page 32). However, this is risky as the owner could end up losing their money if the business fails.
- SHARE CAPITAL — Individuals can buy shares in the business. This means that they will have part ownership in the business and the business can use the money gained through issuing shares.
- VENTURE CAPITAL — This is money raised through selling shares to individuals or businesses who specialise in giving finance to new or expanding small firms. Venture capitalists will usually buy shares in businesses that are risky but have the potential to grow quickly. They will take a stake in the business, and may expect returns more quickly than other shareholders would.
- RETAINED PROFIT — these are profits that the owners have decided to plough back into the business after they've paid themselves a dividend (see p.54).
- CROWD FUNDING — This is when a large number of people contribute money towards starting up a business or funding a business idea. It's often used for creative or innovative businesses and usually takes place online. Normally each person only contributes a small amount of money. Sometimes, the people that contribute money may get a reward in return.

REVISION TIP

Small businesses can have several sources of start-up finance...

There are lots of facts on this page — make sure you can write down every source of finance for a small firm and try to remember the key features of each. Learn, cover the page and start scribbling.

Case Study — Topic 1.3

Now it's time to test all that knowledge that I'm sure you've crammed in there by now... This case study's a bit tricky, so make sure you read everything through a few times (questions and all) before you get started.

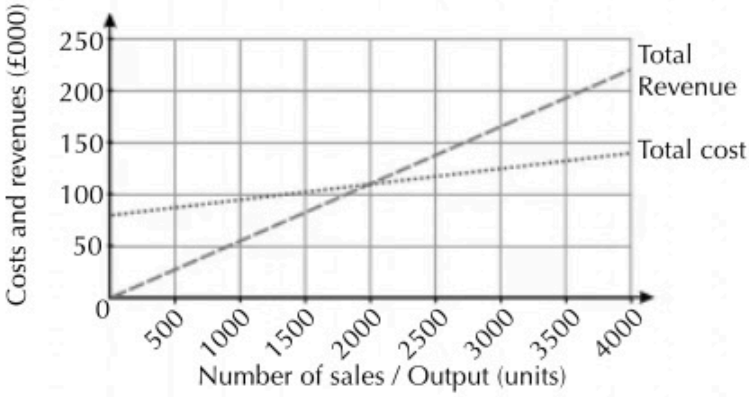
Business Report: Putting a Business Idea into Practice

L.B. Handbags

Lizzie owns a business selling handbags, called L.B. Handbags. She started up her business four years ago using her personal savings, shortly after having her second child.

On average, each handbag costs £15 to make and market and each sells for an average price of £55. In the business's third year, Lizzie had fixed costs of £70 000 per year and sales of 2000 handbags.

In its fourth year, Lizzie took out a loan of £14 000 with her bank in order to fund new equipment and has agreed to pay back £630 each month, including interest. Once the loan is paid off, her repayments will total £15 120. The graph above shows the firm's costs and revenue in its fourth year.



Case Study Questions

For the following questions, make sure you get all the detail you need from the case study above.

1. **State** one risk of Lizzie using her personal savings to finance her business. **[1 mark]**
2. **Outline** one non-financial aim that Lizzie may have had when starting her business. **[2 marks]**
3. **Outline** one financial aim that Lizzie may have had when starting her business. **[2 marks]**
4. **Calculate** the total interest Lizzie will pay as a percentage of the loan she borrowed from the bank. **[2 marks]**
5. a) Use the graph to **identify** the break-even output for L.B. Handbags in its fourth year. **[1 mark]**
   b) Lizzie thinks that in its fourth year, her business will be able to sell 4000 handbags. **Calculate** L.B. Handbags' margin of safety in its fourth year. Show your working in your answer. **[2 marks]**

'Calculate' Question

Calculate the break-even output in units for L.B. Handbags in the business's third year. Show your working in your answer. **[2 marks]**

Video Solution

Worked Exam Questions

It's pretty important for businesses to make sure they have enough cash to pay their bills. Make sure you understand how all this works by looking at these questions.

1 Tele-wheels Ltd. is a new business selling television stands. **Figure 1** shows a cash flow forecast for Tele-wheels Ltd.

	Jun	Jul	Aug	Sep	Oct	Nov
cash inflow	1500	3000	3200	2700	1700	4000
cash outflow	4000	1500	1750	1410	1500	1660
net cash flow	(2500)	1500	1450	1290	200	2340
bank balance at beginning of month	2000	(500)	1000	2450	3740	3940
bank balance at end of the month	(500)	1000	2450	3740	3940	6280

Figure 1

a) Outline **one** reason why it can be useful for a business to perform cash flow forecasts.

[2 marks]

Remember, you need to say why a cash flow forecast is helpful, not just what the cash flow forecast does.

Sample Answer:

Businesses can use cash flow forecasts to predict whether they will have difficulties making payments in the future, which means they can arrange additional finance if necessary for certain periods.

b) Identify which **two** months Tele-wheels Ltd. would need to arrange additional finance for.

[1 mark]

Sample Answer:

June and July

Tele-wheels has a negative bank balance at the end of June and the beginning of July.

2 Explain **one** reason why a venture capitalist may help to fund a new, risky business.

[3 marks]

Sample Answer:

A venture capitalist may help to fund a new, risky business if it has the potential to grow quickly, since they will get a stake in the business and will get a return on their investment more quickly than for businesses with less growth potential.

You need to give one reason, with two points that expand on it.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

> In 2022, Nadia became a freelance photographer. She used a crowd funding website and a loan from her bank in order to set up her photography business. In the first year of her business her costs were high but she did not have many bookings. She has decided to obtain a new source of finance in order to promote her business more widely in her second year.

a) Define the term 'crowd funding'.

....

[1 mark]

b) Outline **one** reason why Nadia may not be able to use retained profits in order to finance the costs in the second year of her business.

....

....

[2 marks]

[Total 3 marks]

2 Yoo Too Sunglasses Ltd. gives its customers 2 months credit to pay. Yoo Too Sunglasses Ltd.'s busiest months of sales are July and August, with sales in September and October being much lower.

There is an unexpected rise in demand for sunglasses in November. Analyse the impact this may have on Yoo Too Sunglasses Ltd.'s cash flow.

....

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[6 marks]

Revision Summary for Topic 1.3

Now you've seen how people can prepare to start up a business and the different types of financial analysis they can use for planning.
Make sure you've covered it all by going through the questions below.

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

For even more practice, try the quiz for Topic 1.3 — just scan this QR code!

Topic 1.3 Quiz

Business Aims and Objectives (p.21-23) ☐

1) What is meant by the aim of a business? ☐
2) State five financial aims a business might have. ☐
3) State four non-financial aims a business might have. ☐
4) What is meant by a business objective? ☐
5) Suggest how the aims and objectives of businesses in non-competitive and competitive markets might differ. ☐

Revenue, Cost and Profit (p.26-27) ☐

6) State the equation for calculating a business' revenue. ☐
7) Describe the difference between fixed and variable costs. ☐
8) *Find the total variable costs for a firm if it sells 450 units with a variable cost per unit of £3. ☐
9) Write the equation for calculating the percentage interest a firm has paid on a loan. ☐
10) *A firm's total revenue is £250 000 and its total costs are £100 000. State whether the firm has made a profit or a loss. ☐

Break-Even Analysis (p.27-29) ☐

11) What is meant by the 'break-even level of output'? ☐
12) Write the equation for calculating the break-even point for a firm's revenue. ☐
13) What is the margin of safety on a break-even diagram? ☐
14) The rate at which the total revenue of a firm changes with output has increased. Describe how this will affect the firm's break-even output. ☐

Cash Flow (p.32-34) ☐

15) What is meant by cash? ☐
16) What is meant by net cash flow? ☐
17) How do you calculate the closing balance for a period on a cash flow forecast? ☐
18) Describe how credit can affect cash flow for a business. ☐

Sources of Finance — Small Business (p.35) ☐

19) Give one disadvantage of using an overdraft compared to other forms of borrowing. ☐
20) Describe what is meant by share capital. ☐
21) Describe what is meant by retained profit. ☐

* Answer to:
q8: 450 × £3 = £1350
q10: The firm has made a profit because its revenue is greater than its costs.

Business Ownership Structures

When an entrepreneur starts a business there are some important decisions to make. For example, what to call the business, where the business should be located and what legal structure the business should have.

Sole Traders — the Easiest Business to Start

Sole trader businesses have just one owner (though the owner may employ other people to work for them). Most small businesses are sole traders. You don't need to do much except start trading. Examples include plumbers, hairdressers, newsagents and fishmongers.

Sole traders — advantages

- They're easy to set up, which means they're great for start-up businesses.
- You get to be your own boss.
- You alone decide what happens to any profit.

Sole traders — disadvantages

- You might have to work long hours and may not get many holidays.
- You're unincorporated. This means the business doesn't have its own legal identity. So if anyone sues the business, they'll sue you personally.
- You have unlimited liability. This means you are liable (legally responsible) for paying back all of the business' debts if it goes bust. As you aren't legally separate from the business, your personal finances are at risk — e.g. you might have to sell everything you own to pay the debts.
- It can be hard to raise money. Banks see sole traders as risky, so it may be hard to get a loan. You often have to rely on your own savings, or family and friends.

Some companies have limited liability — which means the amount of debt the owners have to pay back is limited to the amount they invested (see next page).

For more about finance for a small business, see p.35.

Partnerships are Like Two or More Sole Traders

You get partnerships in businesses like accountancy firms, solicitors and doctors' surgeries. Partnerships generally have between two and twenty partners. Each partner has an equal say in making decisions and an equal share of the profits — unless they have an agreement called a deed of partnership that says different.

Partnerships — advantages

- More owners means more ideas, and a greater range of skills and expertise — e.g. one partner might be great at sales, while another is good at planning.
- It also means more people to share the work.
- More owners means more capital (money) can be put into the business, so it can grow faster.

Partnerships — disadvantages

- Each partner is legally responsible for what all the other partners do.
- Like sole traders, most partnerships have unlimited liability (see above).
- More owners means more disagreements. You're not the only boss. If the partners disagree about which direction the business should go in and how much time to put in, it can get unpleasant.
- The profits are shared between the partners. So if a sole trader decides to go into partnership with another person, they could end up with less money for themselves.

Sole traders and partnerships won't work for everyone...

There are definite advantages of being a sole trader or in a partnership, but an entrepreneur is at personal risk with these business structures — they could be sued or lose all their personal savings.

More Business Ownership Structures

Not all start-up businesses are sole traders or partnerships — they could have a limited structure.

Limited Companies Are Owned by **Shareholders**

There are two types of limited company — private (see below) and public (p.80).
But both kinds have some important differences compared to sole traders and partnerships:

1) A limited company is incorporated — it has a separate legal identity from the owners.
2) So any money, property, tax bills, etc. in the company's name belong to the company, not the owners.
3) Being incorporated means the owners have limited liability. If anything goes wrong (e.g. somebody sues the company or it goes bust) it's the company that's liable, not the owners.
4) The owners only risk losing the money that they have invested.
5) It is owned by shareholders. The more shares you own, the more control you get.

Private Limited Companies — Ownership Is **Restricted**

1) 'Private' means that shares can only be sold if all the shareholders agree.
2) The shareholders are often all members of the same family.
3) Private limited companies have Ltd. after their name.

Ltd. — advantages

- The big advantage over sole traders and partnerships is limited liability — you can't lose more than you invest.
- It's easier for a Ltd. company to get a loan or mortgage than it is for a sole trader or partnership.

Ltd. — disadvantages

- They're more expensive to set up than partnerships because of all the legal paperwork.
- Unlike sole traders or partnerships, the company is legally obliged to publish its accounts every year (although they don't have to be made public).

Limited companies can have very large numbers of owners...

Private limited companies are a bit fiddly to get your head round. They can be tricky for the owners too — it's hard to make decisions if the owners disagree, but having limited liability can be a big advantage.

More Business Ownership Structures

New businesses can also be franchisees — they pay another firm in return for using a name or selling the other company's products. It can be handy to start a franchise — you get the advantage of an established brand.

Franchising Uses the **Brand Name** or **Product** of Another Firm

1) Some people will start up a business as a franchise of another company.
2) This is where they sell the products or use the trademarks of another firm. They then give the firm they're franchising from a fee or a percentage of their profits.
3) The product manufacturers are known as franchisors and the firms selling their products are franchisees.
4) Franchises can trade under the name of the franchisee but advertise that they sell a particular manufacturer's products.

BUSINESS EXAMPLE

- Car dealerships are an example of this type of franchise.
- A dealership (the franchisee) will often have the name of the business' owner, but specialise in stocking cars from a particular manufacturer (the franchisor), and display the manufacturer's branding.

5) Or the franchisee might buy the right to trade under the name of the franchisor.

BUSINESS EXAMPLE

- A number of different businesses may use this type of franchise, from hotel and restaurant chains to hairdressers and house cleaning services.
- Most of the big firms in the fast-food industry (e.g. KFC® and McDonald's®) are this type of franchise.
- Franchisees who want to open a fast food restaurant pay the fast food brand (the franchisor) in order to use that firm's name and stock its products.
- The franchisor may also provide resources such as staff training and support.

There are **Upsides** and **Downsides** to Franchising

Franchising — advantages

- Customers will already recognise the franchisor's brand so are more likely to buy from the franchisee. This means there's less risk of the business failing.
- As franchises are less risky than starting a business from scratch, it can be easier to get a bank loan to start up.
- The franchisor might provide the franchisee with training, or help with things like management and accounting.

Franchising — disadvantages

- The franchisor might have strict rules about what the business can sell and how it can operate, so the franchisee's freedom is limited.
- The franchisee usually has to pay a lot of money to start the franchise and then make regular payments to the franchisor. These costs may mean they end up with less money than if they started a business from scratch.

REVISION TIP

New businesses have to find the structure that works for them...

All business structures have their advantages and disadvantages. You might get asked to give these in an exam, so make sure that you have memorised the pros and cons of different structures.

Business Locations

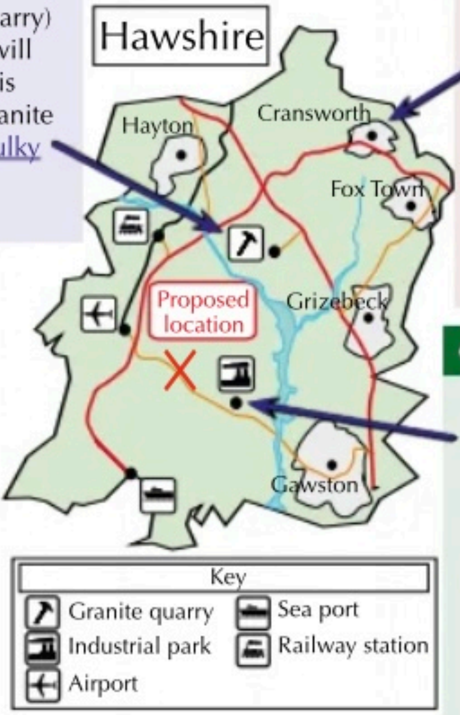
Sometimes, success in business is all about being in the right place. When a firm chooses where it's going to locate, there are lots of things to think about to get a site that suits the business and its customers.

Location is Influenced by **Different Factors**

Suppose a new start-up company Granite King are looking for a location for their new kitchen worktop manufacturing business. They'll want to think about these things...

Location of Raw Materials

Raw materials (a granite quarry) are located nearby — this will lower transport costs. This is important for a firm like Granite King where they're using bulky raw materials to produce smaller finished products.



Labour Supply

The location is close to an area of high unemployment — this will help keep wages low. It also means there'll be a good selection of people to choose from, and the firm should be able to find enough workers. As this is a built-up area, there will also be local colleges that might be able to provide training.

Competition

There are similar businesses nearby — being near competitors can be an advantage. For example, it should be easy to find skilled labour, there are already local suppliers, and customers will know where to come. (Other businesses might prefer to be away from competitors so they don't lose sales or don't have to reduce their prices to be more competitive.)

Firms also need to consider how much a location will cost to operate in. E.g., the cost of rent or labour in that location. The transport links available will also affect their choice.

Other businesses might consider these factors:

Location of the Market

Some firms pay more to transport their finished products than their raw materials. These types of firms find it cheapest to locate near to their customers.

Some businesses locate near to their market so people know about them and can easily get to them. It also helps them to get sales through passing trade (e.g. from people who walk past the business).

The nature of the business will influence what they prioritise when choosing their location. For example, a business that relies on customers visiting its site is likely to prioritise being close to the market. However, a manufacturing firm may prioritise somewhere close to its raw materials or with a good labour supply.

Using the Internet

The internet means that the location of some firms is more flexible.

For example, trading over the internet (e-commerce) means manufacturers can locate further from their market, but closer to their raw materials. It may also mean they don't need fixed premises (e.g. a shop) to sell their products from.

Documents can also be accessed over the internet, which means some businesses no longer need fixed premises for offices. Instead, their employees can work from home and the business can potentially employ people all over the world.

REVISION TASK

Having a good location can make a big difference to a firm...

Make sure you learn the factors that can influence where a business decides to locate. Test yourself by thinking of a few businesses and decide what location factors would be important for them.

Worked Exam Questions

Understanding how to answer questions will help you to pick up marks in the exams. So have a look at the examples below to get an idea of the types of questions you might face and how to answer them.

1 Explain **one** benefit to shareholders if a business has limited liability.

[3 marks]

Sample answer:

Having limited liability means the shareholders aren't liable for the debts of the business if it goes bust, so their financial risk is reduced as if the business fails they will only lose the money they have invested.

You should explain what limited liability means for the shareholders.

You get a mark for stating a benefit.

Make sure you explain the overall impact on the shareholders.

2 Read the following information carefully and answer the questions that follow.

> Hyacinth owns her own florist shop, Bright Bouquets. She employs one member of staff to work in the shop, who can make some simple bouquets. The business takes orders for more complex bouquets for events and weddings, and only Hyacinth can make these. This means that only one large order, such as a wedding, can be carried out at a time and Hyacinth sometimes has to turn down work. Hyacinth uses her own small car for deliveries, which can need several trips for large orders.
> Hyacinth is considering whether she should go into a partnership with another florist, Delilah, rather than continuing as a sole trader. They would have an equal share in the business, and Delilah will bring enough capital to buy a delivery van.

Analyse the impact on Bright Bouquets if Delilah joins the business as a partner.

[6 marks]

You should be thinking about both positive and negative effects on the business.

Sample answer:

If Hyacinth goes into a partnership with Delilah, there will be more people to share the work. This means that they will be able to take more orders, and will be able to take more than one large order at a time, which will increase the business' sales. Delilah will also bring more capital to the business, meaning they can purchase a van to make deliveries. This may reduce costs in the long term, as large orders will need fewer trips than with Hyacinth's car, which will reduce fuel costs. However, Hyacinth and Delilah will have equal say in the running of the business, which means that there could be problems if Hyacinth and Delilah don't agree on business decisions.

It's good to show you understand how the changes could affect sales and costs.

Exam Questions

1 Which of the following businesses is most likely to prioritise the location of raw materials when choosing where to locate?
Put a cross (✕) in **one** correct box.

A A yoga studio ☐

B A water bottling company ☐

C A mobile phone manufacturer ☐

D A publishing company ☐

[1 mark]

2 Read the following information carefully and answer the questions that follow.

> Isaac works in marketing, but also runs a dog sitting business in his spare time. He is planning to leave his marketing job so that he can focus on his dog sitting business. Isaac has a lot of experience in caring for dogs, but is wary of looking after other types of animals, as he doesn't have much knowledge about caring for them.
>
> Isaac is planning to set up a franchise of Petpals™, an established, well-regarded company that operates throughout the UK. Franchisees of *Petpals* are able to offer the following services: pet sitting (for cats and other small animals), dog walking, home boarding, puppy care, elderly dog care, pet taxi services, microchips and medication.
>
> The typical investment needed to become a *Petpals* franchisee is around £20 000 in the first year. As a franchisee of *Petpals*, Isaac will be offered guidance and training, including assistance writing a business plan and setting up a marketing campaign before the franchise is launched. *Petpals* will also give Isaac training before the franchise is launched.

a) Define the term 'franchise'.

....

....

[1 mark]

b) Evaluate whether setting up as a franchise of *Petpals* will benefit Isaac.
You should use the information provided, as well as your knowledge of business.
Write your answer on a separate piece of paper.

[12 marks]

[Total 13 marks]

The Marketing Mix

Human beings have needs — essential things like water, food and shelter. Once our needs are satisfied, we start to want luxuries too, and we're prepared to pay for them. Marketing is about coming up with a product that people need or want — then making it as easy as possible for them to buy it. Sounds simple enough...

There are **Four Ps** in Marketing

1) There are four elements to marketing: product, price, promotion and place — the four Ps. They're the key to understanding what marketing is all about.
2) If a firm gets them right then customers will be more likely to buy its product.
3) If it gets even one of them wrong, it's in trouble.

Together the **Four Ps** are Called the **MARKETING MIX**

Product

The firm must first identify customers' needs (or wants). Then it needs to come up with a product that will fulfil some (or one) of these needs. So spinach flavoured sweets, for example, probably wouldn't sell that well.

Price

The price must be one that the customer thinks is good value for money. This isn't the same as being cheap. You might be prepared to pay a lot of money for a brand new, 50-inch plasma-screen TV, but you'd expect an old basic 12-inch model to be much cheaper.

Promotion

The product must be promoted so that potential customers are aware that it exists and will want to buy it.

Place

Place can refer to the method of distribution (see p.104) used to get a product from the company to the customer. For example, whether it is sold through retailers or sold straight to a customer.

BUSINESS EXAMPLE

1) A firm is developing its marketing mix for its new product — a VR headset.
2) The product is in the premium electronics market, so the firm charges a fairly high price for it.
3) The firm promotes the product using its social media accounts and by producing adverts for the tablet that will be shown on television and video streaming websites.
4) The firm sells the headset both through high-street electronics retailers and directly to the customer via an online store on its website.

Businesses need to consider all four Ps in the marketing mix...

A good marketing mix will persuade customers to buy the products a business wants to sell. Businesses have to decide upon a marketing mix for each product — it might not be the same for all the products they are selling.

The Marketing Mix

A business has a lot of factors to think about when they decide on the best marketing mix for their product.

Lots of Factors Can Affect a Business' Marketing Mix

1) The different parts of the marketing mix will affect each other. For example, the quality of the product will affect how much it costs to make, and therefore the price it will be sold for.
2) There are a number of other factors that can affect the marketing mix too:

Technology Can Affect a Marketing Mix

1) Changes in technology may affect different parts of the marketing mix. For example, improvements in e-commerce (selling products through the internet) means that more companies are selling their products online rather than in stores.

2) Changes in digital communication have also affected how companies promote their products online (see page 104).

The Marketing Mix Depends on Customer Needs

What customers need will change over time too. For example, businesses may have to lower their prices for products that use older technology as these products no longer meet the needs of customers.

The Competition Can Also Influence the Marketing Mix

1) How competitive the market is and what a business' competitors are doing will also affect how a firm balances the elements of its marketing mix. For example, if competitors are offering the same products at lower prices, a business may need to lower its own prices to stay competitive.

2) If a competitor starts selling a brand new product, a business may need to develop its own version of the same product in order to offer a similar range of products to its customers.

3) In a really competitive market, customers may have lots of products to choose from, so businesses may choose to spend more money on promotion to make their products seem more appealing than their competitors'.

The best marketing mix today might not be the best tomorrow...

The marketing mix should work to maximise the sales of a product. To do this, businesses may have to change their marketing mix over time, to keep up with competitors and changes in customer demands.

The Marketing Mix for Small Businesses

Now you know a little bit about the 'four Ps', it's time to think about how small businesses might handle them.

Small Businesses Need to be **Careful** With Their **Marketing Mix**

1) When a business is just starting out, it needs to be very careful to make sure it gets its marketing mix right. This is because it will have fewer sources of finance available to it than more established businesses, so it will be more likely to fail.
2) Here are a few ways in which a small business may focus on each of the four Ps of its marketing mix:

Price

- Small businesses can't benefit from economies of scale (p.78) in the way that larger businesses can. This is because they won't be able to buy raw materials in large enough quantities and they may not have the right equipment to make their processes as efficient as possible.
- New businesses also have lots of start up costs, such as buying new machinery.
- So new and small businesses are likely to have higher prices than large businesses as they will need to cover their costs in order to survive.

Product

- Small businesses won't have much money to spend on developing lots of different products.
- This may mean that they will have a smaller range of products compared to larger businesses.
- They may instead focus on providing higher quality products — e.g. they may choose to make their products using job production rather than flow production (see p.109-110).

Promotion

- Methods of promotion such as TV advertising are unlikely to be used by small firms since they're very expensive. A small firm is likely to use cheaper methods, such as flyers or free samples.
- Promoting the right brand (the overall image of the company) is really important — especially for a new business as it will be trying to establish an image with its customers.
- Small businesses are more likely to promote to local customers (unless they are mainly based online), which is likely to affect the way in which they promote themselves. E.g. it may be more effective to advertise in local rather than national newspapers.

Place

- Small businesses are unlikely to produce products in large enough quantities to sell through very large retailers. And large retailers may also not want to sell products from a new, unrecognised brand in case no one wants to buy the products.
- So many small businesses may choose to sell directly to customers or through smaller retailers.

BUSINESS EXAMPLE

1) Jacob has started a new business selling cards for all occasions.
2) He only has a small amount of start-up finance and so decides to start his business by selling to customers via an e-tailer (see p.104) in order to avoid the costs of renting space.
3) He has a range of 15 different cards, all of which he makes himself. Other online card makers have over 100 different cards, so he decides to make his using much higher quality materials.
4) He pays a small fee to the online e-tailer to have his products promoted on its website.

REVISION TASK

The wrong marketing mix can have big costs for small businesses...

Imagine you are starting a small business. Come up with some products (e.g. t-shirts with film posters on the front), and write out the marketing mix for each of them. Make sure you think about all four Ps.

Business Plans

It's vital that a business has a clear idea of what it's going to do if it wants to be successful — this is where the business plan comes in. You need to know why businesses have them and what they should contain.

The Plan is for the **Owner** and **Financial Backers**

1) A business plan is an outline of what a business will do, and how it aims to do it.
2) Anyone wanting to start a business should have a plan, but they're also useful when an existing firm wants to make changes.
3) A business plan forces the owner to think carefully about what the business is going to do, how it will be organised and what resources it needs. This allows the owner to calculate how much money is needed.
4) The plan can be used to convince financial backers (e.g. banks) that the idea is a sound investment. The business owner can show the financial backer information about how the business will operate, which should help the backer decide how likely it is that they'll get their money back.
5) Writing a business plan should also help to reduce the risks of a new business idea.
6) If the business is a bad idea, the planning should help the owner or the financial backers realise this at an early stage — before they've wasted time and money on an idea that was never going to work.
7) For a new business, the business plan helps managers decide what objectives need to be set to achieve their aims once the business is up and running.
8) They can also help entrepreneurs make business decisions. For example, if they have a sales forecast, they should know how much stock they'll need to buy in order to meet demand.

The Business Plan Describes **How** the Business will be **Run**

There is no single correct way to write a business plan — but most good ones for new businesses include all of the information below:

THE BUSINESS IDEA (p.5) — this should explain what the firm is all about. It could include details of the product the firm will be selling, such as how the firm will achieve its unique selling point (USP) (p.4).

BUSINESS AIMS AND OBJECTIVES (p.21-23) — aims usually say something general and obvious, e.g. "To be the market-leading sandwich shop in Kent." Objectives are more specific, e.g. "To average 160 sandwich sales per lunchtime over 4 years."

TARGET MARKET — the plan should explain who the business is aiming to sell to. This should be backed up by market research (p.11-15) showing that the target market will be interested in buying the product.

MARKETING MIX — the plan should describe how the business will sell its products with a marketing mix using the 4 Ps (p.46).

LOCATION (p.43) — the plan should describe where the business will locate and why. For example, whether it wants to be near its target market, or near its suppliers.

FINANCE — the plan should explain how much money is needed to start up the business, and identify where this money will come from. There should be a cash flow forecast and forecasts of the business' costs, revenue and profits. There should also be ratios to show any backer the likely return on their investment.

All these financial bits and bobs are covered in Topics 1.3 and 2.4.

A business plan doesn't guarantee success, but it helps...

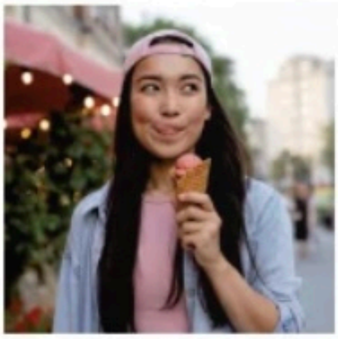
The best laid business plans might not stop a fledgling business from going under — but anyone starting a firm without one would need improbable amounts of luck to survive. In short, plans are important.

Case Study — Topic 1.4

That's almost it for Making the Business Effective, but you need to make sure you're set up for answering any questions about all this in the exams. So here's a nice case study to help you get to grips with it all...

Business Report: Making the Business Effective

Scoop of the Day



Sophie has decided to set up a business called Scoop of the Day — a café that sells ice creams and ice cream desserts. She'll set up the café as a sole trader, using a loan that she plans to get from her bank. Sophie has decided to open the café in the town of Worthbury, and she is researching possible locations within the town. A summary of her research is shown in the table below:

Location	Cost of rent per month	Description
Market Street	£1900	The building is on a busy shopping street. There are two other cafés on the street which only sell hot drinks and pastries. The other shops are mainly clothes shops.
Sutcliff Park	£1650	The building is next to a park popular with families. There are no other cafés in the area. During the summer there is an ice cream van by the park gate.

In order to promote her opening day, Sophie is deciding whether to print some flyers or do a TV advert for a free-to-view channel. Once she has completed the research and decided, all of this information will go into her business plan, along with other details about how the business will be run.

Case Study Questions

Time for a few questions to see what you've learnt. Don't worry if you find them tricky to begin with — just go back and have another read through of the topic.

1. **Define** the term 'business plan'. **[1 mark]**
2. **Outline** one reason why Sophie should use flyers to promote her café rather than a TV advert. **[2 marks]**
3. **Analyse** the benefits and drawbacks to Sophie of setting up her business as a sole trader. **[6 marks]**

'Justify' Question

Sophie has narrowed the location of her café down to the two options in the table:

Option 1: Market Street
Option 2: Sutcliff Park

Justify which one of these two options Sophie should choose. **[9 marks]**

Video Solution

Worked Exam Questions

That's it for this topic. Have a read through the worked exam questions below, then have a go at the exam questions on the next page. If you're struggling, go back through the section again.

1 Read the following information carefully and answer the questions that follow.

Williamson's is an established kitchenware store in a shopping centre. It sells high quality kitchen goods, including pots, pans, cutlery, crockery and items used for baking.
Each product is sold with a 15% profit margin. Most of the customers who visit the store come because they have heard about it from friends.
Recently, a competitor kitchenware store, DiscountDishes, opened in the same shopping centre as Williamson's. DiscountDishes sells similar items to Williamson's but at a lower price, and slightly lower quality. It doesn't sell certain specialty items that Williamson's sells. DiscountDishes has posters up at the entrance to the shopping centre and is offering a free spatula to any customer who spends over £15 in store.

a) Outline how Williamson's products contribute to it having a successful marketing mix.

[2 marks]

Sample answer:

Williamson's sells kitchenware items, which are essential. There are likely to meet their customers needs and customers will want to buy them.

You could also discuss how the quality of the items means that customers will be satisfied with their purchases.

b) Analyse the impact that the opening of DiscountDishes may have on Williamson's marketing mix.

[6 marks]

Sample answer:

DiscountDishes sells similar items at a cheaper price than Williamson's, so it may take some customers from Williamson's. Williamson's sells all its products with a 15% profit margin, but they may have to lower their prices and charge similar prices to DiscountDishes to avoid losing customers. However, Williamson's products are a higher quality, so customers may be happy to pay the higher price.

Williamson's doesn't currently have very effective promotion, as most of the customers have heard about the shop from friends, rather than from promotional material. DiscountDishes have put up posters in the shopping centre, so any customers in the shopping centre who are looking to find kitchenware may be more likely to go to DiscountDishes. So Williamson's may decide to increase the amount it spends on promoting its store, to make more customers aware that it is there.

Williamson's may also decide to emphasise the high quality of its products in its promotional material to attract more customers and differentiate itself from DiscountDishes.

Make sure you include evidence from the item in your answer.

You could also suggest that Williamson's could stock a wider range of products to attract customers in response to DiscountDishes' promotional posters.

You could also discuss how the promotional deal that DiscountDishes offers customers will affect Williamson's marketing mix.

Exam Questions

1 Which of the following pieces of information would you expect to find in a business plan? Put a cross (✕) in the **two** correct boxes.

- **A** Laws the business will have to follow. ☐
- **B** How the business will communicate with its employees. ☐
- **C** Where the business will be located. ☐
- **D** Floor plan of the business premises. ☐
- **E** What the business idea is. ☐

[2 marks]

2 Read the following information carefully and answer the questions that follow.

> Ngozi owns a sports accessories company, Sportis Ltd. She regularly invests money into researching customer preferences in sporting accessories and ensuring that customers who own her products find them stylish and of high quality. Her products are relatively expensive, but her brand is not very well known. She sells her products through retailers in gyms and sports centres. She is also considering using e-commerce to sell her products.

a) Define the term 'e-commerce'.

....

[1 mark]

b) Outline **one** aspect of the marketing mix that has been prioritised by Ngozi.

....

....

[2 marks]

c) Outline **one** advantage to Ngozi of regularly assessing customer needs.

....

....

[2 marks]

[Total 5 marks]

3 Explain **one** reason why a small business may sell products at higher prices than larger businesses.

....

....

....

[3 marks]

Revision Summary for Topic 1.4

Hopefully now you know how businesses choose their legal structure, location and marketing mix to make the business as effective as possible — and then how they put it all into a business plan. This topic's not easy, so have a flick back if you need to remind yourself about some bits before you answer these questions.

For even more practice, try the quiz for Topic 1.4 — just scan this QR code!

Topic 1.4 Quiz

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

Business Ownership Structures (p.40-42) ☐

1) What is a sole trader business? ☐
2) True or false? A sole trader is responsible for all the debts of a business. ☐
3) Describe what is meant by a 'partnership'. ☐
4) What is meant by the term 'limited liability'? ☐
5) Describe two disadvantages of private limited companies, compared to sole traders or partnerships. ☐
6) State one advantage and one disadvantage of setting up a franchise compared to starting up a new business. ☐

Business Locations (p.43) ☐

7) Explain why each of the following factors can affect the location of a business:
   a) the location of the market, b) the location of raw materials, c) the internet. ☐
8) Give one advantage to a business of locating itself in an area of high unemployment. ☐
9) Give one reason why it may be useful for a business to locate itself near to its competitors. ☐
10) Explain why a high-street retailer and a manufacturing firm may approach choosing the location for their business in different ways. ☐

The Marketing Mix (p.46-48) ☐

11) Which 'p' in the marketing mix refers to the way in which a firm sells its products to its customers, e.g. through retailers? ☐
12) Why do businesses use promotion? ☐
13) Describe how e-commerce may affect the marketing mix. ☐
14) Explain how competition may affect how much money a business spends on promotion. ☐
15) Describe what a small business may focus its promotion on in its marketing mix. ☐
16) Explain why a small business might not sell its products through large retailers. ☐

Business Plans (p.49) ☐

17) Explain how a business plan may help a business to obtain a source of finance. ☐
18) Explain how a business plan may help to reduce risk for an entrepreneur. ☐
19) Give one piece of information that would be included in the business idea on a business plan. ☐
20) Explain why market research needs to be carried out before writing a business plan. ☐
21) State three pieces of financial information that should be included in a business plan. ☐

Stakeholders

A stakeholder is anyone who's affected by a business. Even small businesses may have lots of stakeholders.

Different Stakeholders Have Different **Ideas of Success**

1) Different stakeholders are affected by the business in different ways.
2) This means they have different opinions about what makes a firm successful and what its objectives should be.
3) Here are some important stakeholders that a business needs to consider:

Owners

The owners are the most important stakeholders. They decide what happens to the business and make a profit if the business is successful. In a limited company, the shareholders are the owners (see p.41). Shareholders usually want high dividends, and a high share price.

Dividends are payments that the shareholders get if the company makes a profit. The more shares a shareholder owns, the higher their dividend will be.

Employees

Managers and other employees are interested in their job security and promotion prospects. These are improved if the firm is profitable and growing. Employees also want a decent wage and good working conditions. So they may benefit most when objectives are based on profitability, growth and ethics.

Suppliers

A firm buys its raw materials from suppliers. If the firm is profitable and grows they'll need more materials and the supplier will get more business. So suppliers benefit most when the firm sets objectives based on profitability and growth.

The wants of a stakeholder can also be called their objectives.

Local community

The local community where the business is based will suffer if the firm causes noise and pollution. They may gain if the firm provides good jobs and sponsors local activities. If the business employs local people, these employees will then have money to spend in local shops, which is good for the local economy. So the local community may benefit when objectives are based on minimising environmental impacts, ethical considerations, profitability and growth.

Customers

Customers want high quality products at low prices. They benefit when business objectives are based on customer satisfaction.

Stakeholders may all want different things from a business...

The term stakeholders may seem a little daunting, but just remember that stakeholders are the people affected by a business and they can influence a firm's objectives. It can be tricky for a firm to please all of its stakeholders.

Stakeholders

You've seen five groups of stakeholders so far. First up, here are just a couple more stakeholders. These ones may have no direct connection to the business, but they can still influence decisions.

Stakeholders Don't have to be **Connected to the Business**

Government

The government will receive taxes if the firm makes a profit. The more profits a company makes the more they will have to pay the government in taxes (p.67). They may benefit most when objectives are based on profitability, growth, or job creation.

Pressure Groups

A pressure group is an organisation that tries to influence what people think about a certain subject. They can influence the decisions a firm makes by creating bad publicity for the firm if they don't agree with the firm's actions. E.g. in 2019, environmental protesters blockaded the London headquarters of Google after a report revealed that the firm had made donations to some organisations that denied climate change. Many pressure groups are satisfied when businesses set objectives based on ethical considerations or minimising environmental impacts.

Stakeholders **Influence Business Decisions** to Varying Degrees

1) The owners make the decisions in a firm, so they're the most influential stakeholders.
2) However, they need to consider the interests of other stakeholders when they're setting their objectives.
3) Often, stakeholders will have conflicting opinions about the firm's objectives and its activities.
4) The firm may decide to ignore the opinions of some stakeholders, but they'll need to take others into account if they want to survive as a firm. For example:

- No business can ignore its customers. If it can't sell its products it won't survive.

- A business may want to hold onto its money for as long as possible, but suppliers will become unhappy if they're not paid on time.

- If a business doesn't have happy workers it may become unproductive.

- But a company may not mind being unpopular in the local community if it sells most of its products somewhere else.

REVISION TASK

There are a lot of people that can influence business decisions...

You'll need to make sure you know all these different stakeholders. Cover the last two pages and write out the seven stakeholders given here. If you miss any, read through these pages again.

Technology and Business

The growth of the internet and the development of computers and other technologies have shaken up the business world. You won't get far in business these days without a load of chips and motherboards.

E-Commerce Means Buying and Selling Online

1) E-commerce is using the internet to buy or sell products.
2) Many firms now have websites where customers can buy their products.
3) E-commerce means that firms can reach wider markets compared to just having traditional shops — e.g. a small business in Dorset could end up selling products to someone in New Zealand.
4) E-commerce can be really convenient for consumers — it means they can buy products from all over the world, at any time of the day and they don't have to spend ages queuing up to buy products.
5) Older firms have had to adapt to e-commerce as it's become more important. For example, they've had to build websites, employ IT specialists and develop systems to distribute products to online customers.

Technology Has Made it Easier for Us to Pay for Products

1) There are now lots of different payment systems that can be used to pay for products. For example:

Online Payments

1) Nearly all firms allow you to pay online by entering your debit or credit card details.
2) But there are other online payment systems (e.g. PayPal) that mean you don't have to enter your card details on every website you buy from, and offer a higher level of cyber-security (so your bank details are less likely to get nicked).

Chip and PIN

1) This is where you put your debit or credit card into a terminal (a machine at a checkout) and enter your unique PIN to pay.
2) If you lose your card, you know that someone else can't go on a spending spree with it unless they know your PIN.

Contactless Payments

This is where you pay for something just by holding your debit or credit card, or smart device, near a terminal. (Using a smart device for contactless payments involves downloading an app first — e.g. Apple Pay or Google Wallet payment service.)

2) Having safer and easier payment systems can encourage customers to shop with the firm.
3) Faster payment methods also mean that businesses can serve more customers in any given time, so their revenue could increase.

Businesses have to change with the times...

Customers expect businesses to be up to date with technology. Nowadays people are used to being able to find information instantly, at any time. Businesses that don't change will probably have a hard time surviving.

More on Technology and Business

The last two decades have seen a large change in how businesses communicate and interact with their stakeholders. There are several channels of digital communication that a business can use.

Firms can **Communicate Digitally**

Firms regularly need to communicate with their stakeholders (see p.54).
There are many ways firms can use technology to do this:

Websites

Websites are a great way to communicate with customers — e.g. by posting blogs or providing customer service (such as FAQs). Websites can also be used to publish reports to shareholders.

Email

Email is a very quick way of communicating with stakeholders, either on a personal level (e.g. to respond to a customer query) or on a bigger scale (e.g. to tell all employees they can go home early).

Mobile Apps

These are programs used on mobile devices, such as smartphones or tablets. They are usually used by firms to communicate with customers, for example by giving information about where stores are located, the products the company sells and any special offers.

Live Chats

Live chats are an instant messaging service. They have many uses — e.g. employees can use them to talk to each other from different locations, or customers can use them to speak with a customer service advisor via the internet.

Video Calls

Employees who work for the same business in different locations may use video calling to hold meetings, rather than travelling to meet. This can also be a good way for businesses to communicate with important shareholders, who may all live in different places.

Social Media is Becoming **More Important** to Businesses

1) Social media (see p.13) makes it really easy for users to share information with other users — information can be in many forms, such as written messages or articles, pictures, videos, or links to other sites.
2) This means social media is a great way for businesses to communicate — it can be used to display lots of different types of information, it can be updated regularly and it can be seen by loads of people at once.
3) Businesses use social media for all sorts of purposes — e.g. to provide customer service, to advertise their products, or to promote local events.

New technology can bring new problems...

Social media is a great way to quickly reach a large number of customers. But it can be risky for businesses — if someone leaves negative feedback or a complaint, it may put others off buying their products in future.

More on Technology and Business

Not so long ago, you'd have been laughed at if you said you wanted to pay for your burger using only your eyes. These days it doesn't seem so far-fetched. All this new technology certainly keeps firms on their toes.

Technology has **Changed** the way Businesses Operate

1) Firms need to adapt to changes in technology so they stay competitive.
2) For example, if a firm's competitors are communicating with customers using apps then the firm should also consider doing this.
3) New technology can influence many different aspects of the business.

New Technology can Affect a Firm's **Costs** and **Sales**

- Businesses can often use new technology to carry out processes in place of people.
- This can lead to reduced costs in the long term — e.g. because fewer worker hours are needed to carry out tasks.
- New technology can also lead to increased sales for a business.
- For example, e-commerce may boost a firm's sales as they can reach a bigger market.
- Modern payment systems may lead to increased sales as it's easier and faster for people to buy products so they may buy products more often from the firm.
- However, adapting to new technology can be very expensive. For example, a business may have to buy equipment or train staff to use new computer systems.
- They may also need to hire staff with the skills to use the new technology.

New Technology can also **Change** a Business' **Marketing**

- New technology can also affect a firm's marketing mix (see p.46).
- For example, e-commerce means that customers have more choice of firms to buy from as they can buy from firms in places all over the world, not just in their local area.
- This means that firms may need to change their pricing strategies or the way they promote their products to become more competitive.
- The growth of social media means that many firms are choosing to promote their products through this channel rather than through more traditional routes, such as newspaper adverts.

BUSINESS EXAMPLE

1) In 2021, Katie Patel bought Glisten Up Cars, a car wash firm. When she bought the firm it was close to going bust, but Katie made it profitable again within two years.
2) Katie bought handheld contactless payment terminals, which meant that people could pay for their car wash from their cars, rather than having to pay in cash or go into the office. This was more convenient for customers, so sales increased.
3) Katie also set up a website to inform customers about the firm, and set up social media accounts to advertise the firm and promote its special offers. These measures also led to increased sales.

EXAM TIP

Adapting to new technology can have pros and cons...

In the exam, you might get asked to analyse a business' use of technology. Make sure you think about the benefits of the technologies (such as speed), as well as the costs (such as training costs).

Worked Exam Questions

That's it for stakeholders and technology. Go through these worked exam questions to get an idea of how you can get marks in an exam. Then have a go at answering some questions yourself on the next page.

1 Read the following information carefully and answer the questions that follow.

Luanne owns a business that sells personalised children's gifts. Since starting the business at the start of 2022, her sales have continued to increase, as shown in **Figure 1**. She started her business by selling her products on a market stall but had an e-commerce website developed as well. She has been thinking about accepting PayPal as a form of payment on her website. Luanne would have to a pay a fee for using PayPal, but it would allow customers to pay for their items by entering their PayPal user name and password, rather than the details of their credit or debit card.

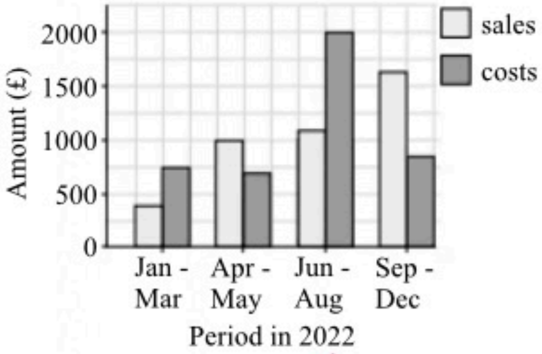


Figure 1

a) Identify the 3-month period in which Luanne set up her website.

[1 mark]

Sample Answer:

June-August

Developing the website is likely to have cost Luanne a lot of money — you need to look for the three month period when her costs were highest.

b) Outline **one** benefit to Luanne of setting up her website.

[2 marks]

Sample Answer:

The e-commerce website will give Luanne a larger market to sell her products to, so she is likely to see her sales continue to increase.

You get one mark here for stating how the website will affect the market Luanne can sell to, and one for stating the effects on sales.

c) Outline **one** advantage to Luanne of accepting PayPal as a form of payment on her website.

[2 marks]

Sample Answer:

Accepting PayPal payments will mean that customers find it safer to buy products from Luanne's website, so they will be more likely to complete their online purchases, which will lead to increased sales.

People might be unwilling to buy online if they don't trust the payment system.

You might also discuss that PayPal is easier or faster than other payment methods.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

> Heyshore Sports Ltd. are a company that own a sports centre in the town of Heyshore. In the last five years, their revenue has increased by 36% and profits have increased by 20%. As a result of this success, they have increased staff wages by 5% and cut the membership fees they charge their customers by 3%. They have also invested in refurbishing their changing rooms and have started investing in new gym equipment designed for children.
>
> Heyshore Sports Ltd. would like to expand their business by building more outdoor facilities. They are considering using an area of meadowland directly behind the sports centre. The land is currently a popular picnic spot for families, although a local environmental group tries to dissuade people from using the land as it's home to lots of wild plant and animal species. Another option is to use land 500 metres down the road from the sports centre. The land is currently occupied by a derelict factory, which would need knocking down and removing before any building could begin. This site is twice the size of the meadowland and the building work is expected to be more expensive.

a) Outline **one** way in which Heyshore Sports Ltd. may have satisfied the objectives of their customers.

....

....

[2 marks]

b) Outline **one** reason why the government may have been satisfied with Heyshore Sports Ltd.'s business activities.

....

....

[2 marks]

c) Outline **one** reason why some of Heyshore Sports Ltd.'s owners may have disagreed with the decision to increase staff wages by 5%.

....

....

[2 marks]

d) Heyshore Sports Ltd. want to avoid too much conflict from stakeholders when they decide on a site for their expansion. They need to choose between:

Option 1: The area of meadowland behind the sports centre.

Option 2: The disused factory site 500 metres down the road from the sports centre.

Justify which **one** of these two options Heyshore Sports Ltd. should choose.

Write your answer on a separate piece of paper.

[9 marks]

[Total 15 marks]

Employment and the Law

'Employment law' describes the many different laws associated with the relationship between employers and employees. The laws are generally about pay, recruitment, discrimination and health and safety.

Businesses Have to **Pay** Staff a **Minimum Amount**

1) There are laws about the minimum amount employers have to pay their staff.
2) Workers aged 20 and under but of school leaving age have to be paid the National Minimum Wage (NMW) — the exact amount depends on the age of the worker and the type of work.
3) Workers aged 21 and over have to be paid the National Living Wage (NLW) — this is slightly more than the National Minimum Wage.

The NMW and the NLW are usually increased each year.

The **NMW** and **NLW** Have **Advantages** and **Disadvantages**

- The NMW and NLW mean that companies can't cut their costs by paying workers less than the legal minimum. If they do, they're breaking the law.

- If a company doesn't pay its workers enough, it could be given large fines. It could also get bad publicity, and consumers might stop using the business.

- The NMW and NLW can increase a firm's costs. This can lead to increased prices, meaning a possible fall in sales and a reduced income for the firm. Some firms may not be able to afford to pay the NMW or NLW to all of their staff, so may have to lose some staff in order to survive.

- The NMW and NLW can have benefits for companies though — they can lead to better motivated staff and increased productivity.

There Are Laws About **Recruitment**

1) Recruitment procedures must not discriminate against anyone because of, for example, their religion, gender, race, age, sexual orientation or because of disabilities. This is covered by the Equality Act 2010.

2) Firms must also make sure that any new recruits have a legal right to work in the UK. This can involve extra work for firms as they may have to carefully check new recruits' documents (e.g. passports and visas), but employing people illegally can result in big fines and possibly even the closure of the firm.

Businesses have to obey the law to avoid prosecution...

Making sure all business activities are within the law can take time and be expensive, but all firms need to do it. If a firm doesn't follow the law, the consequences could be much worse.

Employment and the Law

Businesses haven't always treated their employees fairly, but nowadays businesses are required by law to do so. They are also responsible for the well-being of their employees and have to keep them safe at work.

Businesses **Can't Discriminate**

1) Apart from recruitment (see previous page), the other main equal opportunities issue covered by the Equality Act 2010 is pay — all employees must be paid the same if they do the same job (or work of equal value) for the same employer.
2) If a company is found to have discriminated against someone, they'll have to pay compensation.
3) If any employee in a company is accused of discrimination, the company could also be held responsible. So companies need to take reasonable steps to prevent discrimination within the workplace — such as staff training and writing company policies about equal rights.

The Workplace Needs to be **Safe**

1) Health and safety legislation helps to make sure that risks to people at work are properly controlled.
2) Firms need to carry out risk assessments to identify possible dangers and take reasonable steps to reduce the risks. E.g. accident books need to be kept, and first-aiders trained.
3) All staff must receive health and safety training and suitable equipment must be provided — e.g. hard hats on building sites.
4) A safe working environment should mean fewer accidents, and so fewer injuries.
5) And hopefully it means a more productive workforce too — since people should need less time off work to recover.
6) Following health and safety laws can be expensive — e.g. paying for staff to go on safety courses.
7) But businesses that don't follow health and safety laws can be prosecuted, fined and even closed down.
8) They may also have to pay compensation to anyone who's injured, and could get bad publicity.

BUSINESS EXAMPLE

- Asbestos is a substance that was once widely used in industrial buildings for things such as insulation and fire-proofing. However, it was found to be dangerous and cause cancer.
- This led to a number of governments introducing legislation to limit the use of asbestos, and ensure that any asbestos currently in use can be dealt with safely.
- In the UK, it is required by law that asbestos can only be removed by a licensed contractor. The law states that strict guidelines must be followed when dealing with asbestos, to ensure it is removed safely and the health risks are minimised.
- For example, suppose the workers of a construction firm discover asbestos while they are building an extension on an older building. The firm will have to abide by specific safety measures when working around the asbestos, and may need to bring in external contractors to remove the asbestos before the firm can continue the planned work.

REVISION TIP

These laws can have big impacts on business...

The important thing here is understanding how the laws affect businesses. Make sure you understand how a business may be affected if it follows the law, and also what might happen if it breaks the law.

Consumer Law

There are laws restricting how firms sell their products — the aim is to protect the consumer. If these laws weren't in place, some businesses might be tempted to be a bit dishonest.

The Consumer Rights Act Sets Conditions for Products

The Consumer Rights Act 2015 covers how goods and services can be sold. It basically states that goods should meet three criteria:

The product should be fit for its purpose

The product has to do the job it was designed for — if you buy a bucket, say, it's not much use if it leaks water out of the bottom.

The product should match its description

- The way a business describes a product it's selling is called a 'trade description'. It's illegal for a retailer to give a false trade description.
- This includes the size or quantity of the product, the materials it's made from, and its properties.
- It's also illegal to claim that a product has been endorsed or approved by a person or an organisation unless it really has been.

The product should be of satisfactory quality

- This means that the product should be well made — it shouldn't fall apart after a couple of uses.
- It also means that it shouldn't cause other problems for the buyer — e.g. a fridge should keep food cold, but it shouldn't make a noise like a jet plane at the same time.

If products don't meet the legal requirements, customers can ask for their money back, a repair or a replacement.

Consumer Laws **Affect** Businesses

1) If a business breaks consumer law it is faced with the cost and inconvenience of having to refund the customer, or repair or replace their item.
2) The case could even end up in court if the customer is unhappy with the business' response about their item (which costs the business even more if the customer wins the case).
3) As well as being expensive, breaking consumer law can harm the reputation of the business, which could lead to a reduction in sales.
4) So businesses have to be very careful when selling products and services to their customers.
5) They need to make sure they train their staff properly, so they sell products accurately and understand what a customer's rights are if they are unhappy with a product.

Firms need to make sure they keep up to date with all legislation that they need to follow — any changes to the legislation could mean that they need to make changes to their business. For example, a change to consumer law could mean that they have to rewrite any terms and conditions they give their customers and retrain their staff.

The law protects consumers against bad business practices...

Consumers are within their rights to return products that aren't fit for purpose. This means that a business making faulty products could face large costs in refunds or replacement products. Better to get it right first time.

Unemployment

The economic climate can have a huge effect on firms, but it's something that they can't control. The economic climate includes many different economic conditions, including unemployment.

Unemployment is a Big Problem

People are unemployed when they're able to work but can't find a job. The level of employment (the number of people in work) changes over time, and this can have a big effect on businesses.

1) Unemployment means the economy as a whole produces less output than if everyone was employed. So everyone suffers from unemployment — in theory at least.

2) UK unemployment was very high in 2010 — around 2.5 million. In 2019, this had fallen to about 1.3 million. However, it started to rise sharply again in 2020.

Unemployment Can Help Some Businesses

1) Some firms can actually benefit from unemployment. They may be able to pay lower wages if there are lots of unemployed people desperate for a job. It can also mean they can fill jobs easily.
2) In areas of high unemployment, the government may even give grants to firms who open and provide jobs in the area. These factors may encourage a firm to grow when unemployment is high.

Unemployment Can Also Cause Issues for Businesses

1) However, there can also be big problems for businesses when there are high levels of unemployment.
2) Less employment means lots of people have less disposable income. This can lead to a lack of demand for products, so sales can fall. A firm may respond by, e.g. reducing prices, reducing output or making staff redundant.
3) It may also be a problem if firms hire people who have been unemployed for a while — people may lose skills while they're unemployed, so firms may need to retrain them.

Disposable income is the money that people have left once they have paid tax.

BUSINESS EXAMPLE

- DV Murray is a small construction firm in the UK. The recession in 2008 meant that the firm had to make many of its construction workers redundant.
- In 2014, the growth of the economy meant that DV Murray took on many new contracts and needed to recruit more workers.
- Many of the workers it recruited had not worked in the construction industry since 2008, so DV Murray had to spend time and money on retraining these staff.

Unemployment can have a few benefits...

Generally, unemployment is a bad thing — it reduces consumer spending, which can cause more businesses to struggle and more people to be unemployed. But it can mean that businesses have a larger workforce to choose from when recruiting new staff, and they may be able to pay lower wages than when there are lots of jobs.

Worked Exam Questions

Hopefully you now know how the law can affect businesses. Have a look through these worked exam questions, and then test yourself with the exam questions on the next page.

1 Under the Health and Safety at Work Act, businesses are required to take responsibility for the health and safety of their employees while they are at work. Coffee Tonight is a coffee chain that strictly follows this law, whereas Au Lait is a coffee chain that does not always follow this law.

a) A former employee of Au Lait has taken Au Lait to court and prosecuted it for failing to follow the Health and Safety at Work Act. State **two** other possible consequences for Au Lait of not following this law.

[2 marks]

Sample Answer:

Au Lait may be fined.

Au Lait may get bad publicity.

You can also say that Au Lait could be closed down, or that it may have to pay compensation.

b) Outline **one** disadvantage to Coffee Tonight of following the Health and Safety at Work Act.

[2 marks]

Sample Answer:

It could be expensive for Coffee Tonight because it will have to provide safety training to its staff.

Make sure you explain the disadvantage — its not enough just to state that it can be expensive.

Remember, in an explain question, you need to make a point, and then give supporting statements to explain why it is correct.

2 Explain **one** advantage to a business of making sure it is aware of any changes in consumer law.

[3 marks]

Sample Answer:

Being aware of any changes in consumer law means the business will be able to respond quickly to make sure it complies with the changes to the law, such as by changing its terms and conditions and retraining staff. This will ensure that the business won't break the law by being out of date, and so won't face negative consequences as a result.

When considering why it is an advantage for a business to do something, it can be helpful to think of how the business might be negatively affected if it didn't do it.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

Sam has started up a business selling used real leather bags, called Sam's Satchels. He buys 50 used bags and checks each one for faults. He goes through the following checklist for each bag:

1 Are all of the bag handles and fastenings intact? pass/fail
2 Is the bag made from real leather? pass/fail

If a bag fails either of the tests above then he still sells it as it is, without labelling any defects, but at a discount price. He sells the remaining bags at a higher price.

a) State **one** reason why Sam's Satchels is breaking consumer law.

....

[1 mark]

b) State **one** thing that Sam's customers are legally entitled to if a bag they purchase does not meet legal requirements.

....

[1 mark]

c) State **one** change that Sam can make to his business in order to keep to the requirements of consumer law.

....

[1 mark]

[Total 3 marks]

2 Explain **one** advantage to a business of starting up while unemployment levels are high.

....

....

....

[3 marks]

3 By law, all employers must pay their staff at least the national minimum wage. Explain **one** advantage that minimum wage law has for businesses.

....

....

....

....

[3 marks]

Government Taxes

Tax is money that has to be paid to the government so that they can pay for public services (such as health care and education). Tax rates determine the percentage of a business' profits that have to be paid to the government.

Tax is Money That Goes to the Government

1) Both consumers and businesses have to pay tax. For example, consumers have to pay tax on money they earn (called income tax).
2) Businesses have to pay tax on their profits. They also have to pay other taxes, such as environmental tax on activities that harm the environment, and tax on premises they own.
3) Tax rates are set by the government. Changes to tax rates can have a big impact on businesses:

Changes to Income Tax Affects Spending

- If the amount of income tax that consumers need to pay falls, they will have more disposable income.
  - This means that consumer spending is likely to increase, leading to increased revenue for firms.
    - The opposite is true if income tax increases — consumer spending is likely to fall.

Raising Business Taxes Causes Slower Growth

- If the amount of tax that a business needs to pay increases, it reduces the amount of money they have available to reinvest. This can lead to slow growth for a business.
  - If environmental tax increases, a firm may try to be more environmentally-friendly to avoid paying extra tax, e.g. by recycling more.
    - But the tax increases may force the firm to find ways to cut costs in order to survive or meet their profit targets, e.g. by making staff redundant.
      - They may also consider relocating the business abroad to a country where businesses pay less tax.

Lowering Business Taxes Causes Faster Growth

- If the government reduces taxes that a business has to pay, it means the business will have more money available to reinvest. This can help businesses to grow.
  - However, lower business taxes might encourage firms from abroad to set up in the UK. This increases competition in the market and may lead to a fall in sales for UK businesses if they don't compete well.

REVISION TIP

Businesses can be affected by different types of tax...

Remember businesses can be affected by tax rates in two ways. They can be directly affected by taxes that change how much money they have to pay, such as environmental tax. They are also indirectly affected by income tax, which changes how much consumers are able to spend.

Inflation

Another economic condition now — inflation. This is the increase in the prices for goods over time.

Inflation is an **Increase** in the **Price** of **Goods and Services**

1) In general, the price of goods and services inflates (goes up) over time.
2) The prices of hundreds of products that an average UK household would buy is regularly tracked. The percentage increase in the price of these products over time is used to measure the rate of inflation.

Inflation has an **Impact** on **Business**

1) Inflation can have many different effects on a business. For example:

Consumer Spending

When inflation rises, consumer spending is likely to go up in the short-term — people rush to buy more products before prices go up even more. This creates extra revenue for a business, which can lead to higher profits (depending on how much the increase in inflation has affected its costs). However, if wages don't go up at the same rate as inflation, demand for products can start to fall (there's more about this on the next page).

Cost of Labour

With high inflation, employees can put pressure on employers to increase wages so that they can afford the higher prices being charged for the things they need. This can increase a business' costs and reduce its profits.

Global Competition

A high inflation rate makes UK exports (products sold to other counties) expensive, so UK firms become less competitive globally. This means that a firm that sells lots of exports may see its sales fall. However, when inflation is low, sales of exports are likely to increase.

2) When inflation is high, business growth tends to be low.

3) Businesses find it hard to predict what is going to happen to their costs and sales. This can make them reluctant to take risks and invest in their business.

The inflation rate is how fast prices are increasing...

Inflation is a little tricky to understand, but generally high inflation rates are bad, because it means that prices are increasing quickly. Make sure you understand how prices going up can affect consumer spending, costs for businesses, and competition with other countries — as well as the link between inflation and business growth.

Consumer Income

Inflation affects how much people spend, as they may feel that they have less money if their income doesn't rise at the same rate as prices. Then again, if their income increases faster than inflation, they may spend more.

Changes in **Income** can Affect Businesses

Over time, the amount that people earn (their income) increases.
However, incomes don't necessarily change at the same rate as inflation.

When **Income Rises** at a **Slower** Rate Than **Inflation**...

1) People will have to spend a greater proportion of their income on things they really need — such as food.

If inflation is rising at a faster rate than income, income is said to be going down in 'real terms'.

2) So they'll have less money left to spend on luxuries, such as going to the cinema, or buying new shoes — the demand for these products will go down.

3) This means businesses that provide luxuries will suffer — their sales are likely to go down, leading to lower profits. They could lower their prices or spend more on advertising to increase demand again, but this is still likely to lead to lower profits.

4) However, some businesses will benefit if people's incomes are relatively low. Stores selling goods at discount prices are likely to see sales go up as more customers will be making an effort to buy things as cheaply as they can.

When **Income Rises** at a **Faster** Rate Than **Inflation**...

1) People will be spending a smaller proportion of their income on things they need. This means they'll have more money to spend on luxuries, and the demand for these goods and services will go up.

2) Businesses providing luxuries will see an increase in sales and their profits are likely to increase.

3) Stores selling goods at discount prices may see their sales and profit go down as people start worrying less about getting things for the cheapest possible price.

REVISION TASK

The balance between income and inflation can have a big effect...

Time to make sure you understand income and inflation. Cover this page, and write down what happens to consumers and businesses when incomes rise a) faster or b) slower than inflation.

Interest Rates

On to another economic condition — interest rates. Many businesses and consumers will borrow money at some point. The amount of money they have to pay back depends on the interest rate.

Interest is **Added** to **Loans** and **Savings**

1) As you read on p.26, when you borrow money, you usually have to pay it back with interest — this means that you pay back more than you borrowed.
2) If you save money, you earn interest — the amount of money in your savings account will increase over time.
    - The amount of interest you pay or earn depends on the interest rate — it's usually given as a percentage. The higher the interest rate, the more you pay or earn.
    - In the UK, the Bank of England sets the base rate of interest — most other interest rates are linked to this. The base rate fluctuates (goes up and down) depending on how good the economy is.

Low Interest Rates Lead to **Increased** Spending

- When the interest rate is cut, it's cheaper to borrow money. But you get less interest when you save money at a bank.
- When rates are low, firms and consumers borrow more and save less.
- Consumers have more money to spend, so demand for goods and services goes up. This means that firms are likely to make more profit and may need to increase output.
- Firms that borrow money to finance their spending (e.g. by using overdrafts and loans) will have smaller interest repayments, so they have more money available to spend on other parts of the business. They may also choose to borrow more while interest rates are low, e.g. if they want to grow the business.

High Interest Rates Lead to **Decreased** Spending

- Increases in interest rates have the opposite effect to cuts — borrowing money becomes more expensive, but savers get better returns on their investments.
- Firms and consumers will have less money available to spend — they'll be paying higher rates on money they've borrowed. They're also likely to be trying to save more, in order to take advantage of higher returns.
- This reduces demand for products, so firms often sell less and their profits may go down.
- It may also mean that firms can't afford to pay everyone who works for them — so some people may be made redundant, and unemployment may go up.

REVISION TIP

Interest rates can drive consumer spending...

A useful way to remember this page is that interest rates and spending are like a seesaw — if interest rates go down, spending goes up. If interest rates go up, spending goes down.

Exchange Rates

Exchange rates are the final economic condition you need to know about. Exchange rates tell you how currencies compare. They're really important for firms that buy from or sell to other countries.

Exchange Rates Convert between **Currencies**

1) If a company wants to import products, they'll have to pay for the product in the currency of the country it was made in. For example, if a British firm is importing goods from the US, they'll have to pay for them in dollars, rather than pounds.
2) An exchange rate is the price at which one currency can be traded for another.
3) Exchange rates are affected by the economy of the country that uses the currency, and by the global economy. This means they can change over time.

Importing means buying goods from another country. Exporting means selling goods to another country.

- In June 2016, the UK voted to leave the European Union.
- This created a lot of uncertainty about what would happen to the UK economy.
- As a result, the value of the pound dropped overnight.
- The day before the result was announced, £1 was worth $1.48. After the result was announced, £1 was worth just $1.36.

A **Weak Pound** is **Good** for **Exporters**, **Bad** for **Importers**

1) If the value of the pound decreases, you'll be able to buy fewer dollars (or other currency) for the same price as before.
2) Pounds are cheaper, so British exports become less expensive abroad — resulting in more sales and higher profits for British firms that export products to other countries.
3) The weak pound also makes it more expensive for foreign firms to sell their products in the UK. That's good news for British firms that compete with goods imported from abroad — they won't have to reduce their prices so much to stay competitive.
4) But it's bad news for British firms that use imported raw materials — these are now more expensive so the production costs of these firms are higher. They'll need to increase the price they sell their products for to cover their costs, which could cause their sales and profits to go down.
5) The result is that the UK will have more exports and fewer imports.

- If £1 = $1.50, a British cricket ball that costs £5 will sell in the US for 5 × 1.50 = $7.50. And a baseball that cost $6 in the US can be sold for 6 ÷ 1.50 = £4 in the UK.
- If the value of the pound falls so that £1 = $1.30 the £5 cricket ball would sell in the US for 5 × 1.30 = $6.50. The $6 baseball can now be sold in the UK for 6 ÷ 1.30 = £4.62.

You don't need to be able to do these calculations — but make sure you understand how changing the exchange rate can affect the cost of importing or exporting.

A **Strong Pound** is **Bad** for **Exporters**, **Good** for **Importers**

1) An increase in the value of the pound makes exports more expensive and imports cheaper. It's just the opposite effect to the example above.
2) British firms that export products to other countries are likely to see their sales and profits go down — their products will be more expensive so fewer people will buy them. They may decide to move part of their business abroad so they can trade in the currency of the country where they sell their products, meaning they will be less affected by the exchange rate.
3) British firms that import raw materials will be able to make products more cheaply, so their profits may go up.

International businesses have to take exchange rates into account...

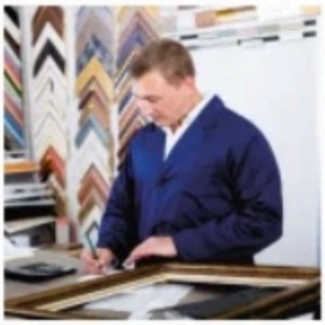
This is a difficult page, so check you really understand it all. A weak pound means it's expensive to buy things from abroad, and cheap for people from abroad to buy things from us. A strong pound means the opposite.

Case Study — Topic 1.5

There's a lot to learn about external influences on business and some of it is pretty tricky.
Try to block out any of your own external influences now as you concentrate on this case study.

Business Report: Understanding External Influences on Business

Frame the Wall Ltd.



Frame the Wall Ltd. is a photo printing firm. The business started as a small shop on the high street. However, after several years they found that their sales started to fall. This prompted them into setting up an e-commerce website. The website successfully increased their sales, which resulted in them recruiting five new staff members.

For the next three years the firm's profits continued to grow. After these three years, the owners had discussions about the future plans for the business. They researched how some experts predicted the economic climate would change in the coming years. Their findings are shown in the table below.

	Predicted change over the following years
Inflation rate	A fall from its current high level
Consumer income	A rise above the rate of inflation
Interest rates	A slight rise from the current level

After careful consideration, Frame the Wall Ltd. planned to reinvest a large percentage of their profit in order to grow the business in the next three years.

Case Study Questions

All that information wasn't just for fun. You'll need to use it to answer the following questions.

1. **State** one area of employment law that Frame the Wall Ltd. would have taken into account during the recruitment procedures for their new staff. **[1 mark]**
2. **Outline** why the development of Frame the Wall Ltd.'s website led to increased sales. **[2 marks]**
3. **Analyse** the likely impact on Frame the Wall Ltd.'s stakeholders of the firm's decision to reinvest a large percentage of the profit. **[6 marks]**

'Evaluate' Question

Look back at Topic 1.3 for information on business aims.

Evaluate the decision of Frame the Wall Ltd. to prioritise growing the business over the next three years, given the predicted economic conditions. **[12 marks]**

Video Solution

Worked Exam Questions

There's been quite a lot of tricky stuff to learn in this section — now it's time to test yourself.

1 **Figure 1** shows how interest rates changed in a country between 1900 and 2010.

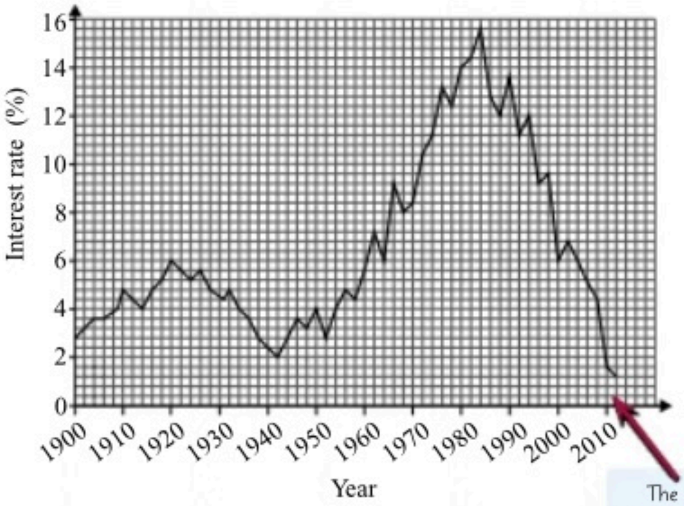


Figure 1

The graph is labelled every five years, so you'll have to work out the exact year when the line is highest.

a) Identify which year was the most expensive for borrowing money.

[1 mark]

Sample Answer:

1984

You have to think about how interest rates affect the cost of borrowing here — high interest rates make it more expensive.

b) State a reason for your answer to a).

[1 mark]

Sample Answer:

1984 was the year in which interest rates were at their highest.

2 A Chinese company that makes hats buys some of its raw materials from India. The company sells its products worldwide. Most of its income comes from the USA.

The value of India's currency (INR) falls against China's currency (CNY). Outline how this change in exchange rate may affect how much it costs the Chinese company to make their hats.

[2 marks]

Sample Answer:

The amount of CNY which can be bought using INR for the same price has decreased, so it will be cheaper for the Chinese company to import raw materials from India. This means that they will be able to make their hats more cheaply.

You need to understand that when one currency "falls against" another, it means it will cost more in one currency to buy the other — just make sure you know which way round it goes.

Exam Questions

1 Which of the following groups will benefit most from high interest rates? Put a cross (✕) in **one** correct box.

A People with mortgages on their houses. ☐

B Banks that lend money to businesses. ☐

C Small businesses that have borrowed money. ☐

D Consumers who want to buy products. ☐

[1 mark]

2 Read the following information carefully and answer the questions that follow.

> Country Rides is a small horse riding business. It has built up popularity since it opened five years ago, and now many of its horse riding trips become fully booked weeks in advance. The business faces very little competition and the owners think the business could be more profitable if they invested in more land and more horses. Before deciding whether to invest they are considering some of the predicted changes in taxation in the coming years. It is predicted that income tax is set to fall and the tax small businesses have to pay is set to rise.

a) Outline **one** advantage to Country Rides of a fall in income tax.

....

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[2 marks]

b) Analyse the impact on Country Rides of a rise in the tax that small businesses have to pay.

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[6 marks]

[Total 8 marks]

Revision Summary for Topic 1.5

Business owners have to stay aware of all the influences covered in this topic if they want their business to have a chance of surviving. And for your exams, you need to know about them too. So have a go at these questions to test how much you remember.

For even more practice, try the quiz for Topic 1.5 — just scan this QR code!

Topic 1.5 Quiz

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

Stakeholders (p.54-55) ☐

1) Describe what is meant by the term 'stakeholder'. ☐
2) Describe how a pressure group may influence a firm's activities. ☐
3) Other than pressure groups, state four possible stakeholders in a business. ☐

Technology and Business (p.56-58) ☐

4) Explain why a firm's costs may increase if it starts using e-commerce. ☐
5) Other than social media, state three ways a business can communicate digitally with stakeholders. ☐
6) Explain why social media is a good method of communication for businesses. ☐
7) Explain why setting up faster payment systems can be beneficial for a business. ☐
8) Explain one way in which new technology might change a firm's marketing mix. ☐

Employment and the Law (p.61-62) ☐

9) Explain how the law has some control over what a business pays its workers. ☐
10) How might a business be affected if it discriminates against its workers? ☐
11) True or false? Businesses are legally obliged to provide necessary safety equipment to employees. ☐
12) State two possible consequences to a business of failing to follow health and safety laws. ☐

Consumer Law and Unemployment (p.63-64) ☐

13) State three criteria that goods should meet in order to follow consumer law. ☐
14) Explain why breaking consumer law can be expensive for a business. ☐
15) State two negative impacts that high levels of unemployment can have on a business. ☐

Government Taxes, Inflation and Consumer Income (p.67-69) ☐

16) Give one type of tax a business has to pay. ☐
17) Explain how a business might be affected if the amount of tax consumers have to pay increases. ☐
18) What does 'inflation' mean? ☐
19) Explain why consumer spending might increase if inflation increases. ☐
20) Describe a type of business that could suffer if inflation is rising at a faster rate than incomes. ☐

Interest Rates and Exchange Rates (p.70-71) ☐

21) Explain what happens to consumer spending when interest rates fall. ☐
22) Explain how a firm with lots of loans will be affected by rising interest rates. ☐
23) Explain why a weak pound can benefit British companies that export goods. ☐
24) Explain why a strong pound can benefit a British business that imports goods. ☐

Business Growth

There are loads of big businesses out there — but all of them have had to grow at some point. You need to know about both internal and external growth. First up, internal growth...

Internal Growth is **Low Risk** but can be **Slow**

- Internal growth (or organic growth) is when a business grows by expanding its own activities.
- Internal growth is good as it's relatively inexpensive. Also, it generally means the firm expands by doing more of what it's already good at — making its existing products. So it's less likely to go wrong.
- The firm grows slowly, so it's easier to make sure quality doesn't suffer and new staff are trained well.
- But because internal growth is slow, it won't be right for a business that wants to grow quickly.

Methods of Internal Growth

Here are two methods of internal growth:

Targeting **New Markets**

1) This is when a business aims to sell its products to people who it hasn't tried to sell to before.
2) Firms can use new technology to target new markets. E.g. they could use e-commerce (p.56) so people can buy products even if they don't live near a store.
3) Technology may also mean items are cheaper to produce, so a firm might be able to lower its prices and target a lower income market.
4) A firm could also set up branches in other countries so they can sell directly in markets abroad.
5) They could also change the marketing mix (p.46) of the product (e.g. the price or the way it's promoted) so that it appeals to a new market.

Developing **New Products**

1) Selling a brand new product will increase sales for a business, allowing it to grow.
2) To sell a new product, firms need innovation — this is when someone comes up with a new product or way of doing things. Often, innovation comes about as a result of research and development.

BUSINESS EXAMPLE

- Orchard Days began as a business that made and produced fruit juices.
- Once it became established in the market, the directors of the firm decided to grow the business by developing a new product — a range of fruity yoghurts.
- This allowed Orchard Days to enter a new area of the food and drink market.

Internal growth is slow but low risk...

Generally internal growth costs the business relatively little, but it may still be expensive to research and develop a new product. And there's no guarantee that the new product will make a profit in the end.

More on Business Growth

So now that you know all about internal growth, it's time to have a look at external growth.

External Growth is Faster than Internal Growth but it's More Risky

1) External growth (inorganic growth) usually involves a merger or takeover.
2) A merger is when two firms join together to form a new (but larger) firm.
3) A takeover is when an existing firm expands by buying more than half the shares in another firm.
4) There are four basic ways a firm can merge with or take over other firms.

Join with a supplier

Joining with a supplier allows a firm to control the supply, cost and quality of its raw materials.

Join with a competitor

Joining with a competitor gives the firm a bigger market share, so it will be a stronger competitor.

Join with a customer

Joining with a customer gives the firm greater access to customers and more control over the price at which its products are sold to the end-user.

Join with an unrelated firm

Joining with an unrelated firm means the firm will expand by diversifying into new markets. This reduces the risks that come from relying on just a few products.

Mergers and Takeovers can have Downsides

- Less than half of all takeovers and mergers are successful. It's very hard to make two different businesses work as one.

- Management styles often differ between firms — the employees of one firm may be used to one company culture and not be motivated by the style used in the other.

- Mergers and takeovers can create bad feeling, especially if the firm didn't agree to being taken over.

- Mergers and takeovers often lead to cost-cutting. For example, there's no point a business having two head offices — the business will have lower fixed costs if it just has one. This cost cutting may mean making lots of people redundant, so it can lead to tension and uncertainty among workers.

External growth is higher risk for the businesses involved...

Not only are there financial risks to the companies involved, but employees may have less job security when mergers or takeovers happen. On the flip side, successful business growth can cut costs (see the next page).

Economies of Scale

You saw on the last two pages how companies might choose to grow or expand. Now it's time to expand your knowledge further and get to grips with one of the main benefits of being a big firm — lower average costs.

Larger Firms Benefit from **Economies of Scale**

1) When a firm expands, its output (the amount of products it makes) will increase.
2) Its costs will also increase. For example, variable costs will increase as the firm has to buy more raw materials and fixed costs might increase if the firm has more buildings or staff.
3) Often, however, costs will increase at a slower rate than output.
4) This means that the average cost of making one product (the average unit cost) is cheaper once the firm has expanded.
5) These reductions in average unit cost are called economies of scale.
6) Economies of scale can happen for different reasons. Here are three of them:

See page 26 for more on variable and fixed costs.

- Larger firms need more supplies than smaller firms, so will buy supplies in bulk. This normally means they can get them at a cheaper unit price than a small firm.
- Larger firms can afford to buy and operate more advanced machinery than smaller firms which may make processes faster or cheaper to run (e.g. they might not need so many staff).
- The law of increased dimensions means that, for example, a factory that's ten times as big will be less than ten times as expensive.

7) As the average unit cost of making each product is lower, firms can make more profit on each item they sell.
8) Also, lower average unit costs mean larger firms can afford to charge their customers less for products than smaller firms can. This may make customers more likely to buy their products, leading to increased sales and more profit.
9) The profits can be reinvested into the business so it can expand even more.

There are also **Diseconomies of Scale**

It's not all good news for large firms though — growth brings with it the risks of diseconomies of scale. These are areas where growth can lead to increases in average unit costs. For example:

1) The bigger the firm, the harder and more expensive it is to manage it properly.
2) Bigger firms have more people, so it can be harder to communicate within the company. Decisions take time to reach the whole workforce, and workers at the bottom of the organisational structure feel insignificant. Workers can get demotivated, which may cause productivity to go down.
3) The production process may become more complex and more difficult to coordinate. For example, different departments may end up working on very similar projects without knowing.

See pages 133-135 for more on organisational structures.

EXAM TIP

There are pros and cons to business growth...

If you're asked in the exam to analyse the effect of business growth, start by noting down some benefits and costs that growth can bring — then you won't forget to include both in your answer.

Sources of Finance — Large Businesses

You saw on page 35 how small firms can raise money. Well larger firms (those that are established or growing) need to raise money too and here are a few ways that they can do it...

Large Businesses can Use **Funds** from **Internal Sources**...

1) Internal sources of finance come from using resources the company already has.
2) Two important examples of internal sources of finance are retained profits and fixed assets.

Retained Profits

These are profits that the owners have decided to plough back into the business after they've paid themselves a dividend (see p.54). But larger companies (e.g. PLCs — see next page) are under pressure from shareholders to give large dividends, reducing the profit they can retain.

Fixed Assets

Firms can raise cash by selling fixed assets (assets that a business keeps long-term, e.g. machinery/buildings) that are no longer in use. There's a limit to how many assets you can sell, though — sell too many and you can't go on trading.

...or **External Sources**

External sources of finance involve something outside the company — whether that's a bank or new shareholders.

Loan Capital

- You saw on page 35 that small businesses can take out loans. They then pay the money back over a fixed period of time with interest.
- Banks need security for a loan, usually in the form of assets such as property. If things go wrong, these assets can be sold to pay back the loan. Large firms can normally take out larger loans than small firms, as they usually have more valuable assets.
- Also, established firms may find it easier to get loans than new firms because they can prove to the bank that they've been profitable over a longer period of time. This means banks will see them as less risky.

Share Capital

- If a business becomes a limited company (see p.41 and the next page) it can be financed using share capital — money raised by selling shares in the business.
- Finance from share capital doesn't need to be repaid (unlike a loan).
- However, selling shares means that the original owner(s) will get a smaller share of the business' profits and lose some control over how the business is run.

Big businesses have to figure out where to get money from...

Money might not grow on trees, but larger firms have more options than smaller ones when it comes to finance. These sources of funds can have their disadvantages, so businesses have to decide which one works for them.

Sources of Finance — Large Businesses

Large businesses can also make money by selling shares to members of the public on a stock market.

Public Limited Companies Can Sell Shares on a **Stock Market**

1) You saw on pages 40-42 the types of structure that a small business might have.
2) As a business grows, the owners might decide to make it a public limited company (a PLC). 'Public' means that shares in the company are traded on a stock market, and can be bought and sold by anyone.
3) This can bring a lot of extra finance into the business, especially if the shares are in high demand, as this will increase their value.
4) There are advantages and disadvantages to becoming a PLC:

Starting to sell shares on the stock market is known as stock market flotation.

Advantages

- Much more capital can be raised by a PLC than by any other kind of business.
- That helps the company to expand and diversify.
- PLCs are incorporated and have limited liability (p.41), so if things go wrong, the owners only lose the amount of money they've invested.

Disadvantages

- It can be hard to get lots of shareholders to agree on how the business is run. Each shareholder has very little say (unless they own a lot of shares).
- Someone could buy enough shares to take over the company — if they can convince shareholders to sell.
- The accounts have to be made public — so everyone (including competitors) can see if a business is struggling.
- PLCs can have hundreds or even thousands of shareholders, so there are lots of people wanting a share of the profits.

REVISION TASK

There are advantages and disadvantages to each source of finance...

Make a table that lists each source of finance from the last couple of pages in a separate row. Then write the advantages and disadvantages of each one in the neighbouring columns. Finally, jot down a business scenario in which each of the sources would be most suitable for financing a firm.

Changes in Business Aims and Objectives

On pages 21-23 you saw how aims and objectives are used to run a business. These aims and objectives aren't set in stone. As the business and the world around it changes, so can the aims and objectives.

A Company's **Aims** and **Objectives** Can **Change**

As a business evolves, its aims and objectives are likely to change.
For example, a business might want to...

Change Whether it Aims to **Survive** or **Grow**

1) A new, start-up business' aims are likely to be focused on survival.
2) However, once it is stable, aims might be centred around growth and maximising profits for reinvestment.
3) But if the economy takes a downturn, the business might start struggling, and its aims could once more become focused on survival.

Change the **Size** of its **Workforce**

1) For example, if a business is expanding, it might aim to recruit more staff.
2) If a business has recently taken over another firm, it might aim to reduce the size of its workforce so it doesn't have multiple people carrying out the same role.

Enter or Exit **New Markets**

1) A business could aim to enter a new market, e.g. by targeting a different group of people in the same place, or by starting to sell products in a new location.
2) This could be because the business is growing, but may also be because their existing markets are shrinking and they need to find new places to sell their items.
3) If a product isn't selling well in a particular market, the business' aims are likely to change so that they exit that market.

Change the **Size** of its **Product Range**

1) For example, if a business has a product that's selling really well, it might aim to bring out more products in the same range with different features.
2) If it has products in a range that don't sell well, it might aim to decrease the product range and concentrate on promoting and growing its best-selling products.

BUSINESS EXAMPLE

- ClassicCovers Ltd. make protective cases for gadgets such as tablets and smart phones.
- Once it was established, its main aim was to expand its product range to produce cases for many different smart phone models and brands. It took on new staff to help do this.
- However, whilst working toward this aim, one of the main smart phone brands it made cases for went bust. This caused the demand for some of the firm's best selling phone cases to fall.
- This meant it had to change its aims to focus on survival instead of growth, and decrease its product range to match the decline in demand.

Business aims and objectives can evolve over time...

Before moving on, make sure you understand how the aims and objectives of a business might change over time. On the next page you can see the different factors which can lead to these changes...

Changes in Business Aims and Objectives

There are a lot of reasons why the aims and objectives of a business might change. These can be divided into external reasons (from outside of the business) and internal reasons (from within the business).

Aims and Objectives May **Change** for **External** Reasons...

Firms also need to change their aims and objectives to keep up with the dynamic (ever-changing) business environment. For example:

New legislation

Companies may need to adjust their aims and objectives when new laws are introduced. E.g. in 2016, a new living wage was introduced. This affected many companies' profit aims and objectives, as they had to pay higher wages.

Changes in market conditions

If a market grows, a company may alter its aims to focus on growing sales. However, if a market shrinks, a company might be more focused on survival or targeting new markets. If a market gets more competitive, a company might focus more on maintaining its market share or maximising sales, rather than maximising profits or growing its market share.

Changes in technology

Companies need to keep up to date with new technology, especially if their competitors are using it. They may need to alter their aims and objectives so they spend more money on getting new equipment and training staff rather than investing in growth.

...or **Internal** Reasons

Factors within the company can also affect its aims and objectives. For example:

Performance

If a company performs better or worse than expected, aims and objectives may be changed. For example, if it sells more than expected one month, future sales objectives might be increased to match this.

Internal Changes

Changes within the company can affect what its aims and objectives are. For example, if the management changes, then the new managers might have different priorities for the business, which will cause its aims and objectives to be changed.

Businesses need to adapt to changes in their environment...

The world is always changing, so businesses need to respond to these changes to avoid problems. There are many reasons why a business' aims and objectives can change. Make sure you know the different factors that can affect them — from the government shaking up the laws, to new managers with new ideas for a firm.

Worked Exam Questions

Have a look through the worked exam questions below. It's particularly worth paying attention to part b), as it will give you a good idea how to get high marks on those tricky long-answer questions in the exam.

1 Read the following information carefully and answer the questions that follow.

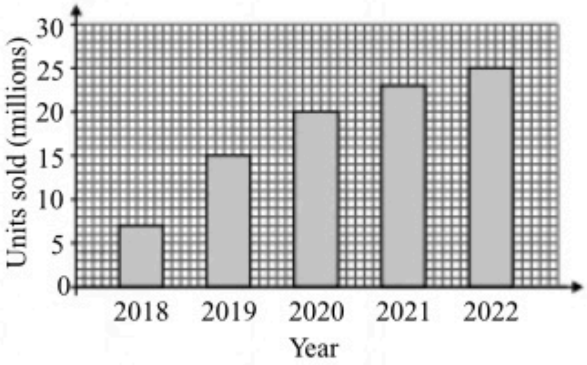

Figure 1

Black Box Plc are a company that manufacture and sell video games consoles. In 2018, they launched a new console, the Gold Chest. They aimed to have sold 30 million units by the end of 2023 and to have increased their market share from 10% to 25%. By 2021, Black Box Plc had increased their market share to 21%. However in 2021, one of Black Box Plc's competitors released a new games console that included virtual reality technology. At the start of 2022, Black Box Plc's market share was 18%. **Figure 1** shows the total number of Gold Chest units sold between 2018 and 2022.

At the end of 2022, Black Box Plc decided to change its aims in the following ways:
- To maintain a market share of 18%.
- To reduce the price of the Gold Chest and target it at a lower income market.
- To develop a new games console using virtual reality technology.
- To have sold a total of 28 million units by the end of 2023.

a) Outline **one** reason why Black Box Plc's aims have changed.

[2 marks]

Sample Answer:

You could have also said that entering a lower income market could allow Black Box Plc to maintain its market share, as it is likely to reduce the amount of direct competition with the competitor product.

Black Box Plc's competitor has started to use more up-to-date technology, so they have changed their aims to include developing a new games console in order to stay competitive.

b) Evaluate whether the changes in aims are likely to be a success for Black Box Plc. You should use the information provided as well as your knowledge of business.

[12 marks]

Sample Answer:

You need to give information about how a business can change aims over time, and relate that to Black Box Plc.

A company may change its aims to focus on survival, rather than growth. Black Box Plc have changed their aim to maintain their market share of 18%, instead of growing their market share from 21%. This is because Black Box Plc's market share fell by 3% from 2021 to 2022 after their competitor released a new, more technologically advanced games console. Changing their aim from increasing market share to maintaining market share is likely to be successful, as it will focus the business on methods it can use to prevent sales of the Gold Chest falling

Use data from the item in your answer.

Worked Exam Questions

further. This means sales won't increase, but it should prevent Black Box Plc from overspending, and should allow the business to survive. Similarly, changing their sales aim from 30 million to 28 million units by the end of 2023 should ensure that Black Box Plc don't waste money on producing games consoles that they are unlikely to sell. So their profits shouldn't be affected by wasted costs.

You need to give the bigger effects that the changes will have, e.g. the effects on profits, costs or survival.

A company may change its aims to enter new markets. Black Box Plc have decided to enter a new market by reducing the price of the Gold Chest, and targeting a lower income market. This will differentiate the Gold Chest from the competitor product, as people who can't afford the new games console might choose to buy the Gold Chest instead. So Black Box Plc might be able to maintain their market share, even if their revenue falls due to the lower price.

A company can change its aims by changing the size of its product range. Black Box Plc have decided to increase the size of their product range by developing a new games console. This will be very expensive for Black Box Plc, so their profits will be reduced. However, it's important for Black Box Plc to adapt to changing technology in order to stay competitive. In the long term, developing a new games console should help Black Box Plc to increase their sales, as the new console will use more up-to-date technology than the Gold Chest, so will be able to compete better with the competitor games console. So it should increase Black Box Plc's sales. By the time the new games console is launched, technology may have developed further, and virtual reality may not be such a cutting edge idea. So sales demand might not be as high as hoped, and sales might not cover the high costs of development. This could mean that Black Box Plc makes a loss on the new games console.

You should give both advantages and disadvantages of the changes.

Overall, the changes in aims should be a success for Black Box Plc by helping to control their costs and maintain their sales. However, the aim to develop a new games console using virtual reality technology might be risky if they spend a lot of money developing a console using technology that is out of date by the time it is launched. It might be better to use this money to develop other technology that would be more cutting edge and differentiate it from its competitor, which would help to increase sales again in the future.

You need to finish your answer with a conclusion about whether or not the changes in aims will be a success for Black Box Plc — make sure you've looked thoroughly at all the information given.

There's often no right or wrong answer with these questions. Just make sure that you justify your conclusion using the analysis you made earlier in your answer.

Exam Questions

1 Which of the following statements correctly describes a merger?
Put a cross (✕) in the correct box.

A When an individual purchases more than 50% of a company's shares. ☐
B When a business develops new products for a different market. ☐
C When two businesses join together to form a larger business. ☐
D When a business changes its marketing to target two different markets. ☐

[1 mark]

2 Explain **one** disadvantage of expanding by internal growth.

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[3 marks]

3 Read the following information carefully and answer the question that follows.

> Xu's Letters Ltd. is a private limited company that was started 15 years ago by Hue Xu. The company makes cards and stationery for many newsagents in the UK. Currently, all the shares in the company are held by Ms Xu and her family. The company has grown steadily since it was started and now the shareholders are considering a large growth project. The shareholders are also considering becoming a public limited company.

Analyse the impact on Xu's Letters Ltd. of becoming a public limited company.

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[6 marks]

Globalisation

Better technology makes it easier to communicate and travel round the world. Which causes globalisation...

Globalisation Means the World is More Interconnected

1) Globalisation is the process by which businesses and countries around the world become more connected. It means that it has become easier and more common for businesses to import products (buy them from abroad), and export products (sell products to other countries).
2) The effects of globalisation can have many different impacts on businesses:

IMPORTS — firms have a larger market to buy from, so they may be able to buy supplies more cheaply, which reduces costs and can increase profits. However, more imports means there's more competition in a country. Firms may be forced to reduce their prices to stay competitive.

EXPORTS — being able to export goods easily means firms have a larger market to sell to. This can lead to increased sales and higher profits.

BUSINESS LOCATION — globalisation has made it easier for businesses to locate parts of their business abroad (e.g. to set up stores, factories or offices overseas). This may allow them to reduce their costs so they can make more profit, e.g. if they start producing goods closer to where they get their raw materials from, their transport costs will fall. Some firms may also set up in countries where labour is cheaper, which helps to keep their costs down.

MULTINATIONALS — single businesses operating in more than one country are known as multinationals. When a big, multinational business enters a new country, firms already in that country may need to change the way they operate in order to compete successfully.

Firms Face Barriers to International Trade

Firms can't just buy and sell products across the world willy nilly — governments have set up tariffs and trade blocs as a way of trying to control international trade:

TARIFFS — these are taxes on goods that are being imported or exported. They make products imported into a country more expensive than those that are produced domestically (in the home country). This helps domestic firms stay competitive.

TRADE BLOCS — these are groups of countries that have few or no trade barriers between them, e.g. they can trade with each other without having to pay tariffs. Firms from countries outside the trade bloc will find it hard to compete with those inside, as their prices will be affected by having to pay tariffs.

Firms Need to be Able to Compete Internationally

Having a global market means there can be lots more competition. So businesses need to be able to stand out from the competition. Here are a couple of ways they do that:

- Firms can use e-commerce to sell products online. This means they can compete overseas without having to set up stores and infrastructure in foreign countries, which keeps their costs down.
- Firms may change their marketing mix in different countries. E.g. they can change prices to make sure they're competitive, or target products and promotion at the country's culture.

BUSINESS EXAMPLE

1) McDonald's® is a multinational company. Stores in different countries have slightly different menus to appeal to the customers in those countries.
2) E.g. in India, none of their products contain beef, as many Indians are Hindu, so don't eat beef. In China, they have a special, seasonal menu to fit in with Chinese New Year.

Governments will try to protect businesses in their own countries...

Tariffs and trade blocs make it harder for firms to trade in some countries, helping native businesses to succeed.

Ethical Considerations

There are lots of things a business can do to make sure it's being fair and honest. Many stakeholders are concerned about how businesses behave towards others, and whether they act in an ethical way.

Ethical Issues Have Become **Important** for Businesses

1) Ethics are the moral principles of right and wrong.

2) Many firms have their own ethical policies. This means they've developed ways of working that stakeholders think are fair and honest.

3) The ways that UK firms treat employees and suppliers in other countries raises many ethical issues.

International Ethical Issues

- In some countries, it's not illegal for people to work very long hours for very low pay. Some firms set up factories in these countries to reduce their labour costs — many people think this is unethical if it exploits workers from foreign countries.
- Businesses can write codes of conduct for any factories they have overseas. This helps to ensure that the workers are treated ethically. For example, they can put limits on the number of hours somebody can work each week so they don't get too tired. They could carry out checks to make sure the code is being followed.
- Firms that buy raw materials from developing countries can choose to buy from Fairtrade sources — this means people in developing countries who produce the goods (e.g. cocoa farmers) are paid a fair price so they can earn decent wages.

4) Businesses need to treat their employees in the UK ethically too. E.g. businesses should reward staff fairly, keep personal details about staff private and provide a comfortable working environment.

5) Treating people well isn't the only ethical issue for a business. For example, when promoting products, firms have to follow codes of practice — they can't be dishonest or insult other brands in adverts (although competing products can be compared in a fair way). Some products can't be advertised at all — e.g. cigarette adverts are banned on health grounds.

6) Firms are also under pressure to carry out product development in an ethical way — this means using non-toxic materials, paying close attention to safety, and not using animal testing.

REVISION TASK

There are lots of different groups a business should treat ethically...

Find a news story about a company that hasn't been treating its stakeholders ethically. Write down the stakeholders that were affected, and also what the business could have done to be more ethical.

Ethical Considerations

Ethical considerations aren't all fine and dandy for a business (otherwise every business in the world would act ethically) — there are drawbacks that should be considered. Read on to find out more...

Acting **Ethically** Isn't Always Straightforward

1) Acting ethically can have drawbacks and benefits.
2) There can often be a trade-off between behaving ethically and making the most profit for a firm.

There are **Downsides** to **Acting Ethically**...

- Ethical policies can be costly. For example, by treating workers fairly and making sure they are all paid a fair wage, a business is likely to have higher labour costs than if they didn't work ethically.

- Also, if a firm is committed to using ethically sourced materials (e.g. fair trade products) they may find it more difficult to find suppliers and have to pay a higher price for their materials.

- These increased costs mean that a firm doesn't make as much profit on each item that it sells. It could put its prices up so that it makes more profit per item, but higher prices might lead to lower sales (so the business still ends up with less profit).

... But **Working Ethically** can be **Beneficial**

- Despite potentially making less profit, many firms are still keen to work ethically.

- Firms might change their marketing to emphasise the fact that they have strong ethical policies. For example, the Co-op advertises all its chocolate as from Fairtrade sources. By advertising its ethical policies, a business might gain customers and increase its profits — there are plenty of people who think that ethical practices are more important than price.

- Acting ethically can have a positive effect on other stakeholders as well. For example, some shareholders will be more likely to invest in a firm if it has shown that it behaves ethically. Treating staff ethically can mean workers are more motivated, which should make the firm more productive.

REVISION TASK

Customers may seek out ethical products...

Find a few examples of competing businesses selling a similar product and see if you can find any differences in ethics. Note down what the differences are, and if any of the businesses promote themselves based on their ethics. If you're stuck, make-up brands are a great place to look.

Environmental Influences

Some businesses create a lot of waste and pollution, so they have to think about how they affect the environment. Some may choose to be a "green" business — they will try to reduce their environmental impact.

Businesses Can **Reduce** Their **Impact** on the **Environment**

1) All businesses can have an impact on the environment. For example, by producing waste that ends up in landfills. Factories, cars and lorries can also cause air, noise and water pollution.
2) People are worried that the combined impact of global businesses is damaging the Earth at the moment. For example, many firms use resources that are non-renewable (e.g. coal and oil) — if these resources run out there's no way we can replace them.
3) Also, many business activities release carbon dioxide and other gases into the atmosphere — these are thought to be contributing to global warming.
4) Many businesses are now aiming to be more sustainable — this means working in ways that won't damage the Earth for future generations.

Firms Can Take Action to be **More Sustainable**

There are a lot of different ways firms can become more sustainable — here are a few of them:

- Use less packaging and recycle more so that less waste goes to landfills.
- Dispose of hazardous waste carefully so that it doesn't pollute land or water.
- Use more efficient machinery that is less polluting to the air, or quieter machinery that causes less noise pollution.
- Use more renewable energy resources (e.g. wind or solar power), and electrical goods that are more energy efficient.

There are **Pros** and **Cons** to Being **Environmentally Friendly**

1) As people become more aware of environmental issues, consumers are changing their buying decisions — people are now buying more "environmentally friendly" products.

2) Taking environmental issues seriously can give firms a competitive advantage — a "green image" can attract new customers and increase sales.

3) However, there can be a trade-off for a business between being sustainable and making profit. For example, buying new equipment and developing new processes in order to be more sustainable can be expensive. Firms have to weigh up the benefits against the negative effect it could have on their profits.

Businesses are becoming more concerned about their impact on the Earth...

Firms need to be careful about their operations so they don't end up damaging the Earth for future generations.

Environmental Influences

Businesses or industries may have to change their environmental policies and business objectives after a campaign by a pressure group. If they don't change, the business may get bad publicity and lose money.

Pressure Groups can Fight for **Environmental Causes**

1) Pressure groups are organisations that try to influence decisions made by the government or by businesses (see p.55).

2) If a pressure group runs a campaign against a certain firm or industry (e.g. by highlighting areas where it could be more environmentally friendly or ethical) customers might start to view the firm or industry in a bad light.

3) This means the firms involved could lose custom if people stop buying from them.

A Business Might **Change** its **Policies** due to **Pressure Groups**

1) To improve their image in the public eye, businesses can change their marketing mix.
2) For example, a business might have to change its products in response to activity from pressure groups — e.g. by making sure the materials are more ethically sourced, or have less of an impact on the environment.
3) It might also run promotional campaigns to repair the negative publicity the pressure group has caused.

BUSINESS EXAMPLE

- Supermarkets have been under pressure from groups such as WRAP and Friends of the Earth to reduce the amount of food that they waste.
- As customers have become more environmentally conscious, this pressure has increased.
- Many supermarkets have now changed their policies to reduce food waste — e.g. by changing processes with suppliers so food is fresher when it reaches the store, so it's less likely to go off.
- Supermarkets are also changing the products they sell — for example, some sell vegetables that are slightly strange looking for a cheaper price, so farmers don't have to throw them away.
- There has also been increased pressure to reduce the amount of plastic packaging used in supermarkets and other shops.
- This has led to the government changing the law so that shops are required to charge for plastic carrier bags.
- Some supermarkets have stopped stocking some types of plastic bag altogether, e.g. thin single-use plastic bags.
- This encourages customers to purchase reusable bags and bring them with them to carry their shopping, and so reduces the amount of plastic that gets thrown away.

Pressure groups can't force a business to change...

...unless they cause a change in the law. Make sure you understand how pressure groups influence businesses by influencing public opinion. A business doesn't have to respond, but it might lose custom if it doesn't.

Case Study — Topic 2.1

Well, if a business grows at the rate of my little sister, then it'll be a multinational in no time... Now test all your new-found knowledge on business growth, etc. by doing the questions on this tasty case study.

Business Report: Growing the Business

The Co-operative Group

With its roots going back to 1863, The Co-operative Group is a large UK food retailer with over 2500 stores. As a co-operative, the firm is owned by its members, who can have a say in how the business is run and receive a share of the profits. The group also owns the Nisa brand, which it bought in May 2018 and which represents almost 4000 independent retailers.

The Co-op says it is committed to acting ethically. The firm is a founding member of the Ethical Trading Initiative, and its 'Sound Sourcing Code of Conduct' outlines the employment standards it expects of its suppliers. In 2022, it carried out over a thousand audits of its producers to ensure that they were working ethically. Many of its own-brand products are Fairtrade certified, including staples such as tea, coffee, sugar and cocoa. In the UK, the firm seeks to invest in local communities — and particularly in young people — through its Community Partnerships Fund. It also partners with Your Local Pantry, a group of neighbourhood food hubs. The firm also seeks to act sustainably: 100% of its fresh meat comes from British farms, it has reduced its carbon emissions by 56% since 2016 and in 2023 it supported the restoration of peatlands in Scotland.

In December 2022, The Co-op launched a partnership with food delivery firm Just Eat, allowing customers to order Co-op products on the Just Eat app and have them rapidly delivered. The company has also begun to offer autonomous deliveries by robot in a number of cities, with delivery charges from 99p.

Case Study Questions

When you have lots of statistics in a case study, like the one above, make sure you read it through thoroughly so that you have all the information you need to answer questions like these...

1. **Define** the term 'sustainable'. **[1 mark]**
2. **Give** one way in which The Co-op's large number of stores may allow it to benefit from economies of scale. **[1 mark]**
3. **Outline** one benefit to The Co-op of its partnership with Just Eat. **[2 marks]**
4. **Outline** one reason why The Co-op may have decided to buy Nisa rather than relying solely on internal growth. **[2 marks]**

'Analyse' Question

Analyse the possible impacts on The Co-op of its ethical and sustainability practices. **[6 marks]**

Video Solution

Worked Exam Questions

In the exams, you'll be given questions that start by giving you some information about a business. Go through the worked example questions below to get an idea of how to deal with these sorts of questions.

1 Read the following information carefully and answer the questions that follow.

> ForKids, a company which makes plastic children's toys, has just opened a new factory near a residential area. The factory has several pieces of machinery for making toys. Recently ForKids has received complaints from a local pressure group that represents resident's interests about the noise from the factory.
>
> Once the toys have been made, they are packaged individually in large cardboard boxes and transported in vans to distribution centres throughout the country.

You might get asked to define business terms in the exam. Make sure you've memorised the meanings of key terms.

a) Define the term 'pressure group'.

[1 mark]

Sample Answer:

A pressure group is an organisation that tries to influence decisions made by businesses and government policy.

b) Outline **one** way in which the managers of ForKids could minimise the impact of the new factory on the surrounding environment.

[2 marks]

There are two marks available, so you need to state one thing the managers could do, and say why this reduces the impact on the environment.

Sample Answer:

They could package products more efficiently, so that fewer van journeys are needed to transport products, leading to less pollution.

Link your answer back to the details in the item — the actions need to be things that it would be possible for the managers at ForKids to do.

You could also have said that reducing the amount of packaging on products would mean that less waste would be sent to landfill and that they would use fewer resources, or that they could use more efficient machinery to reduce air pollution, or quieter machinery to reduce noise pollution.

c) Outline **one** advantage to ForKids of making the new factory more environmentally friendly.

[2 marks]

Make sure you give a brief explanation of the impact on the business.

Sample Answer:

It could improve the image of ForKids which will attract new customers.

The first mark is for stating one advantage of making the factory more environmentally friendly. The second mark is for explaining how this will benefit the business.

As well as attracting customers, you could also have said that improving its image will increase sales for ForKids.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

Squishie is a company that makes smoothies and fruit juice. Their factory is in the UK, but they grow most of their fruit in Spain and sell their products in a European trade bloc. Squishie is considering setting up a factory in Spain. The company employs factory workers in the UK and farm workers in Spain who are each paid the minimum wage of their country. In one year, the business paid its workers the minimum wage of €1260 per month in Spain, and €1583.30 per month in the UK.

a) Define the term 'trade bloc'.

....

[1 mark]

b) Outline **one** benefit to Squishie of setting up a factory in Spain.

....

....

[2 marks]

[Total 3 marks]

2 Read the following information carefully and answer the questions that follow.

Beancraft Ltd. is a UK company that makes coffee. It buys coffee beans from plantations in less economically developed countries. Unlike most of its competitors in the UK, Beancraft Ltd. only uses plantations that have been certified by a Fairtrade organisation. There are more plantations worldwide that are not Fairtrade certified than those that are.

Analyse the effects of using a source of coffee beans that is Fairtrade certified on the financial success of Beancraft Ltd.

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[6 marks]

Revision Summary for Topic 2.1

Now that you've grown your business knowledge, it's time to test yourself with a few questions.

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

For even more practice, try the quiz for Topic 2.1 — just scan this QR code!

Topic 2.1 Quiz

Business Growth and Economies of Scale (p.76-78) ☐

1) What is organic growth? ☐
2) Explain how a business can use new markets to expand. ☐
3) Describe the difference between takeovers and mergers. ☐
4) Explain two disadvantages of external growth. ☐
5) What are economies of scale? ☐

Sources of Finance — Large Businesses (p.79-80) ☐

6) Explain how a company can use fixed assets to raise finance. ☐
7) Give two examples of external sources of finance that may be available to an established business. ☐
8) Explain why becoming a public limited company can allow a firm to raise a lot of money. ☐
9) Give one disadvantage to a business of becoming a public limited company. ☐

Changes in Business Aims and Objectives (p.81-82) ☐

10) Give three examples of how a business' aims and objectives might change as it grows. ☐
11) Explain how an increase in the competitiveness of a market may affect a business' aims and objectives. ☐
12) Explain why changes in technology could affect a business' aims and objectives. ☐
13) Give two factors within a company that may affect the company's aims and objectives. ☐

Globalisation (p.86) ☐

14) Explain two ways in which a business might benefit from globalisation. ☐
15) Explain two ways a business may face barriers to international trade. ☐
16) Give one way in which a business may need to change its marketing mix when it starts selling its products in a different country. ☐

Ethical Considerations (p.87-88) ☐

17) Describe three ways in which a firm could make sure it is working ethically. ☐
18) Explain why working ethically might reduce a firm's profits. ☐
19) Give one way in which working ethically may improve a firm's productivity. ☐

Environmental Influences (p.89-90) ☐

20) State two ways in which a business can reduce its impact on the environment. ☐
21) Explain how the profits of a business might be affected if it changes its activities to become more sustainable. ☐
22) Explain one way in which a business might change its marketing mix in response to pressure groups. ☐

The Marketing Mix and The Design Mix

It's back to the four Ps of the marketing mix — they're important for established businesses as well as small businesses. Oh, and a bit of the design mix is thrown in for good measure too.

The **Different Parts** of the Marketing Mix **Affect Each Other**

1) You may remember from p.46 that there are four different elements of marketing — product (a good or a service), price, promotion and place. These different elements make up the marketing mix.
2) A business can use the different elements of the marketing mix to make decisions about the business.
3) By having the right combination of the four different elements, a business can have an advantage over its competitors (called a competitive advantage), by attracting and selling to more customers.
4) However, the different elements of the marketing mix can affect each other — this may mean that a business will have to make a compromise between the different elements. For example, a business may have to charge a high price for high quality products.
5) The method of distribution of a product will also affect its pricing and promotion. Products sold online are likely to be cheaper than those sold in stores since the business may have lower fixed costs (e.g. rent). High-street retailers are likely to use displays in their store fronts to attract customers, whereas businesses that sell products online may use more online advertising.
6) The quality and price of the product will also affect how it is promoted — if a product is of low quality but it is quite cheap, then price may be emphasised in promotional material. However, if the product is of higher quality or is more expensive, then the promotional material may emphasise its quality.

Differentiation Can **Attract Customers**

A company may not be able to differentiate itself for long — competitors may copy the idea, which removes their competitive advantage.

Differentiation is about making your products or services distinctive in the market — e.g. by changing elements of the marketing mix. These differences should make customers want to buy your product instead of competing products.

1) Without differentiation, customers will think your product is identical to others.
2) One way to differentiate a product is to give it a unique selling point (USP) — see p.4. This could be a special feature or a service provided by the company, such as fast delivery.
3) You can promote your product in a way that makes it seem different, even if it's not.
4) You can also change the price of the product. Cheaper usually means more appealing to a mass market, but it also means less profit per unit sold. Having a really expensive product can actually make it appear much more luxurious than competitors' products and more appealing to a niche (small and specialised) market.
5) Product design is hugely important for product differentiation. The DESIGN MIX has three main ingredients:

Function

The design must be fit for its purpose. A car without an engine would be a non-starter. Unique features can also help — a razor with seven blades shaves better than a razor with one.

Cost

A good design will lead to low manufacturing costs. This means higher profits.

Aesthetics (appearance)

A good product should look attractive and distinctive. Packaging can also help a product to stand out (and protect it till it reaches the customer).

Businesses have to make their products stand out from the crowd...

Depending on the market, there could be a lot of products for customers to choose between. Businesses have to find a way to make their product distinct from the others and attractive to customers.

Product Life Cycles

Even firms with great products will find that they don't sell well forever — all products have a life cycle.

Demand for a Product **Changes Over Time**

All products go through the same life cycle — but the sales life of some products is longer than others. For example, the sales life of most cars is about ten years, but the sales life of many computer games is only a few months. Whatever the product, its marketing mix will need to change during its life cycle.

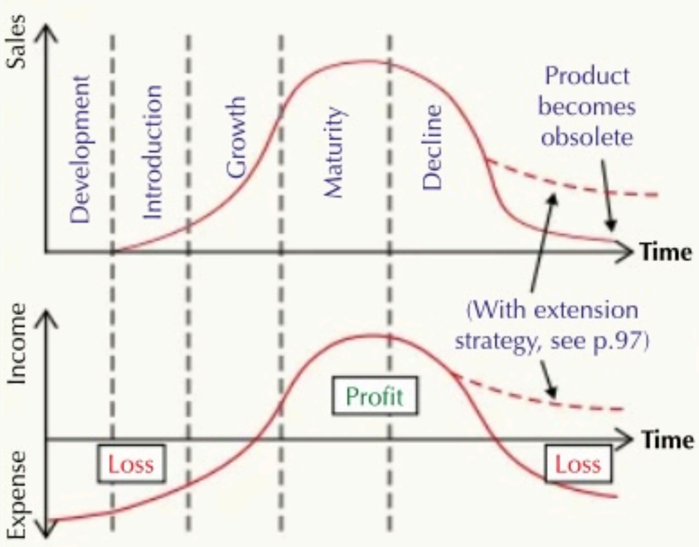
1) RESEARCH AND DEVELOPMENT (R&D) is the first stage of a product's life cycle. It is used to develop an idea and turn it into a marketable product.

    - Scientific research is often vital for product development. A lot of scientific research is done in universities. It's often "pure" science — without any kind of commercial aim.
    - Large businesses often then have teams of "applied" scientists, who try to use recent scientific discoveries to develop new or improved products to sell.
    - One aim during product development is to find the most cost-effective materials and methods to use.

2) INTRODUCTION comes next — the product is launched and put on sale for the first time. This is usually backed up with lots of advertising and sales promotions. Place is also an important P here — there's no point launching a product in places where nobody will be interested in buying it.
3) GROWTH — During this phase, demand increases, until the product becomes established.
4) MATURITY — Demand reaches its peak during this stage. Promotion becomes less important — businesses will continue to advertise the product, but less than at its launch. As the product's popularity grows, businesses will try to make the product more widely available. Towards the end of this phase, the market becomes saturated and there's no more room to expand.
5) DECLINE — Eventually demand starts to fall as rival products take over. The life cycle is linked to the cash flow of the business during the life of the product.

As demand for a product increases, sales of the product will also increase, and vice versa.

Sales and Profit During the Product Life Cycle



Development and Introduction

The firm spends money on research and promotion, but sales of the product are usually low. The business will expect to make a loss during these stages.

Growth and Maturity

The business will hope to earn enough money to pay back their initial investments and make a profit.

Decline

The firm will probably spend less money supporting the product — and as sales fall, it will begin to make a loss, unless it stops making the product.

REVISION TASK

Products won't make a profit to begin with...

Make sure you understand how the product life cycle can affect a firm's sales and profit.
Try sketching out both graphs yourself, and labelling each one with the stages of the product life cycle.

Extension Strategies

Over time the sales of products may eventually decline, as you saw on the previous page. But that's not the end. There are lots of things that businesses can do to keep their products selling. These are called extension strategies.

Firms May Try to **Extend the Life** of Products in **Decline**

1) Although the sales of all products will eventually decline, firms can take action to extend their life.
2) They might decide to use an extension strategy during the decline phase of the life cycle.
3) If the extension strategy works, the product will make profit for longer.
4) However, it means spending more money on the product — this takes away cash from other parts of the business.
5) Firms have to strike a balance between investing money in supporting old products and in designing new ones.

There are **Several Types** of Extension Strategy

1) There are lots of ways that firms can extend the life of their products, for example:

- Adding more or different features — adding new features may increase demand for the product by making it more useful or more appealing to customers.
- Using new packaging — creating a new packaging design for the product may make it more eye-catching, so that customers are more likely to see it and choose it over competitors' products. A new image for the product may also attract a new target market.
- Targeting new markets — businesses can find new markets for their products, for example a different age group or country. They can then target their promotional material at the new markets to extend the life of the product.
- Changing advertisements — by running a new advertising campaign, businesses may be able to make more people aware of the product, or promote it in a way that makes it more appealing to the original market or to a new market.
- Lowering price — businesses can reduce the price of the product, or use special offers or competitions.

2) Several of these extension strategies are related to each other. For example, changing the packaging of the product may help to target a new market. Businesses may use a combination of several strategies.
3) However, certain strategies may be more beneficial to a business or a certain situation than others.
4) You need to be able to evaluate how useful different strategies will be for a business, or suggest strategies that a business could use.

BUSINESS EXAMPLE

- Bubbletime is a company that sells shower gels and shampoos.
- One of its shampoos for babies entered the decline phase of its life cycle.
- Therefore the company decided to rebrand the product as a shampoo for people with sensitive skin.
- It designed new packaging and also changed TV adverts and posters for the shampoo, so that they were targeted towards all ages with sensitive skin.
- This meant that the company was able to extend the life of the product.

Extension strategies try to increase the sales of a product...

But if sales aren't high enough to cover the extra cost from the extension strategies, then the firm could make a loss on the product. Firms must consider this when deciding on an extension strategy.

Worked Exam Questions

Now that you've learnt all about product life cycles, it's time to test your knowledge with some exam questions. Have a look through the worked exam questions below, then have a go yourself on the next page.

1 Read the following information carefully and answer the questions that follow.

A company which specialises in garden equipment, Leafery Ltd., developed a new weedkiller which was designed to selectively kill only certain types of plants. The company spent a significant amount of time and money in developing this new weedkiller and also in designing and producing a marketing campaign for it. **Figure 1** below shows how sales of the new weedkiller changed in the years following its launch.

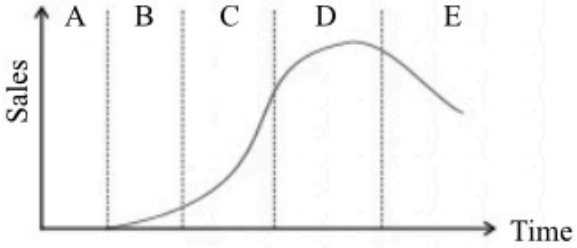


Figure 1

a) Identify the letter which shows the **growth phase** of the new weedkiller on the graph above. *[1 mark]*

Sample Answer:

C

Remember that the growth phase is when sales are increasing the fastest. So you need to identify the part of the graph with the steepest upward slope.

b) Outline what the development stage of the new weedkiller would have involved. *[2 marks]*

Sample Answer:

Research will have been carried out, and the idea for the weedkiller would then have been developed to create a marketable product.

The development stage includes both research and development, so you'll need to include both here.

2 Explain why a business may decide to lower the price of a product that is in the decline phase of its life cycle. *[3 marks]*

Sample Answer:

A product in the decline phase of its life cycle will have decreasing sales. Lowering the price may mean that more customers will be willing to buy the product, which will extend the life of the product.

There are three marks here so you need to make three connected points — one about the product sales, and two about the effect of lowering the price.

Exam Questions

1 Which of the following describes the 'introduction phase' of a product life cycle? Put a cross (X) in **one** correct box.

A Demand for the product is falling. ☐

B The product is launched on the market. ☐

C The product is no longer sold. ☐

D The product is at its most established. ☐

[1 mark]

2 Read the following information carefully and answer the questions that follow.

> SwimTech is a company that sells sportswear gadgets, particularly for swimmers. The business' newest product is a waterproof watch that can track a swimmer's progress. Unlike other products on the market, the watch is integrated with a chain of leisure centres so users can access the pool, open lockers and get discounts on leisure centre products, all through their watch. SwimTech decides to sell the product mainly through high street retailers.

a) Outline **one** way in which SwimTech's choice of method of distribution may affect the way its new product is promoted.

....

....

[2 marks]

b) Outline **one** benefit to SwimTech of making its watch different to others on the market.

....

....

[2 marks]

[Total 4 marks]

3 Read the following information carefully and answer the question that follows.

> Nestlé® KitKat® chocolate bars were among the most popular chocolate bars in the UK for many years. However, since the late 1990s their popularity has fallen due to other competitor brands taking over the market. To extend the life of the KitKat brand, Nestlé launched a new variation on the product called a KitKat Chunky. They also made the chocolate bars available in different flavours, including orange and mint. However, in 2014 sales of KitKat decreased compared to the previous year, and other chocolate brands increased their market share. Nestlé spent £10m on marketing *KitKat* in 2015, including launching a partnership with the video website YouTube™. It created new packaging with a link to online videos that the consumer could watch while enjoying their KitKat.

Evaluate whether using extension strategies for KitKat is likely to have been beneficial for Nestlé. You should use the information provided, as well as your knowledge of business. *Write your answer on a separate piece of paper.*

[12 marks]

Price

Time for another of those Ps now and it's the one that customers usually think is most important — price. There are lots of things that can influence a product's price, so businesses need to think very carefully about it.

Businesses Need to Think About **Demand** When Setting **Prices**

1) Most businesses aim to make a profit — this means that the money they get from selling their products has to be more than the business' costs.
2) The easiest way to do this is to make the price of each product higher than the total cost of making it.
3) However, firms need to think about how the price of a product will affect demand (the quantity of a product that customers are able and willing to buy).
4) As prices rise, demand for a product tends to fall. So firms need to make sure that the price of a product isn't so high that they won't sell many.
5) Sometimes, a firm may need to set the price of a product lower than the total cost of making it so that there is still a decent level of demand for the product (see next page). In this case the firm may have to rely on making lots of profit on other products in its portfolio so that it doesn't go bust.

The total cost of making a product includes the cost of getting it to market too — e.g. marketing and distribution costs.

Internal and **External Factors** Influence Pricing Decisions

1) There are many factors to consider when deciding on the price of a product. Some of these factors are internal (controlled by the business) and some are external (not controlled by the business).

Internal

- Technology — The technology used by the business in every step of its process of making and marketing the product will affect pricing. For example, if expensive machinery is needed to make the product, then this may increase the price that it needs to be sold at in order to make a profit. However, in the long-term, machinery may help to reduce costs since, e.g. processes may be more efficient or fewer employees may be needed (see p.111).
- Method of production (p.109-110) — Flow production may require expensive machinery but it will also be more likely to benefit from economies of scale than job production so products may be cheaper.
- Product life cycle — Where a product is in its life cycle will affect its price. For example, when the product is in the introduction and growth phases a firm may charge a very low or very high price to encourage people to buy it (see next page). In the maturity phase, a firm may need to bring its price in line with competitors' prices (see right). In the decline phase, the firm may need to reduce the price in order to increase demand for the product again.

External

- Competition — If the product is sold in a competitive market, the firm needs to look at what competitors are charging for similar products. If a firm puts its prices too high, customers will just choose a competitor's product. If it puts its prices too low, customers will query whether the quality is as good as its competitors'.
- Market segments — The nature of the market segment that a product is targeted at will affect its price. E.g. if the product is aimed at a segment with a high income, its price will be higher than a similar product aimed at a segment with a lower income.
- Cost of raw materials — This will affect the cost of each unit (individual product). High quality raw materials will lead to high unit costs and so high prices will be needed to cover costs.

2) A business' pricing decisions are likely to change as it grows. E.g. once it has developed loyal customers and a good reputation, it might be able to increase prices without demand falling too much.
3) On the other hand, as a business grows it can benefit from economies of scale (see page 78). This means that the average cost of making each product falls, so the business can afford to lower prices.

REVISION TASK

Price can help determine popularity and profit...

Find examples of two (or more) products that are very similar, e.g. toasters, and compare their prices. Use what you have learnt about prices to note down why you think the prices are different.

Pricing Strategies

Pricing strategies are ways that businesses decide on the prices of their products. They can be affected by the competition within the market, as well as the product itself. Here are the five strategies you need to know...

Here are **Five Pricing Strategies** Businesses Can Use

Price Penetration

- This is where a firm charges a very low price when a product is new to get lots of people to try it.
- It's a good way to establish a market share for a product in a competitive market.
- The product will make very little profit at first but once it has become established the firm increases the price. Loyal customers should continue to buy the product despite the price increase.

Loss Leader Pricing

- This is when the price of a product is set below cost. The firm doesn't make a profit on it, but the idea is that customers will buy other products as well (which it does make a profit on).
- E.g. games consoles are often priced below cost but firms make profit on games that go with them.

Price Skimming

- This is where firms charge a high price to begin with — they can usually do this when they know there will be a high demand for the product (e.g. goods that use new technology and have a desirable USP, such as electric cars).
- It often works for established firms as they'll have loyal customers who will be willing to pay.
- The high price helps the firm to increase revenue and to cover any research and development costs.
- Having a high price also helps to make the product more desirable to people with high incomes, or to a more niche market (e.g. professionals). This can help to improve the firm's image and status.
- Once the product's established, the firm lowers the price to help it become a mass-market product.

Competitive Pricing

- This is where the firm has to charge similar prices to other firms.
- It happens most when there is lots of choice and not much product differentiation — e.g. petrol.
- The firm may make very little profit and have to find ways other than price to attract customers.

Cost-Plus Pricing

Firms may use this method if they're not in price competition with other producers.
The firm works out the total cost of making the product, and then adds on a certain amount depending on how much profit they want to make while still having reasonable demand.
There are two main ways it can be done:

- USING A MARK-UP — Work out how much the product costs and then add a percentage mark-up. So if the product costs £2 to make, and you want a 25% mark-up, you'd sell it for £2 + 25% = £2.50.
- USING A PROFIT MARGIN — Work out how much the product costs and increase it to get the profit margin you want. So if the product costs £2 to make, and you want a 20% profit margin, this means that £2 is 80% of your required selling price.
  So 80% = 200p, 1% = 200 ÷ 80 = 2.5p, 100% = 2.5p × 100 = 250p.
  So you'd sell it for £2.50.

Mark-up and profit margin use percentages differently...

Mark-up is expressed as a percentage of cost. Profit margin is expressed as a percentage of the selling price.

Methods of Promotion

Promotion is basically when firms brag about a product so that customers notice it and want to buy it.

Good Branding is Important

1) A firm's brand image is the impression that customers have of the firm or products sold by the firm — e.g. the firm may have a reputation for high quality, luxury products. There may also be a recognisable logo that customers associate with the company or products.
2) Products with a strong brand image are easily recognised and liked by customers. A strong brand image is usually built up over a number of years. It's important that a firm's products, prices, methods of promotion, and the places they sell in all build the right brand image.
3) A firm may create different brand images for different products to target different market segments. E.g. a skincare company may market some products to women and others to men.
4) Developing a brand image and promoting products is expensive for a business, but both should increase the revenue of a firm — through first time purchases and repeat purchases. The business will have planned for this increase in revenue to cover the costs of promotion and branding.

Firms **Promote** Their Products by **Advertising**

One way that businesses can establish a good brand image is through effective advertising. Advertising is any message that a firm pays for which promotes the firm or its products. Methods of advertising include:

Newspapers

Local newspapers can reach a market segment in a specific geographical area and national ones can reach a wide audience. They're printed often so they're a good way to promote temporary offers. However, the print quality is usually poor and the number of people reading newspapers is declining.

Magazines

Magazines are often aimed at a particular market segment, e.g. people in the same age group or people with similar hobbies. Businesses can use adverts in these magazines to target these specific market segments. Magazine adverts can be pricier than newspaper adverts, but they're better quality and people tend to hang on to magazines for longer.

Posters and Billboards

Posters and billboards can be placed near a target audience, stay in place for a long time and be seen daily by lots of people. But people might not look at them for long, so messages need to be short.

Leaflets, Flyers and Business Cards

Leaflets, flyers and business cards are cheap to produce and distribute. They can be targeted at certain areas (which is useful for targeting a market segment in a particular location) and people can keep them until they need the information. But many people see them as 'junk' and throw them away quickly.

Television Adverts

Television adverts can be seen by a wide audience and include sounds and moving images. They can deliver long messages and help to emphasise the firm's image. On the downside, they're very expensive.

Internet Adverts

Internet adverts can be seen at any time by a large, targeted audience, can include sounds and moving images, and customers can visit the firm's website immediately after viewing the advert. However, there are so many adverts online, people may stop looking at them properly or choose to block them.

Advertising lets customers know about your product...

...and hopefully it also makes them want to buy it. It's pretty crucial to get promotion right in a competitive market — you want customers to choose your product instead of one sold by a competitor.

Methods of Promotion

So you've learnt about advertising — now here are a few more methods of promotion. It's all about making sure that people know the product exists, and making them less likely to buy a competing product.

Businesses Can **Sponsor** Organisations and Events

1) Firms sometimes give money to organisations and events — e.g. schools, TV production firms and exhibitions.
2) In return, their name is displayed by the organisation or at the event. This is called sponsorship. For example:

Examples of Sponsorship

- Sports — A large firm might stamp its brand name all over an international competition. A smaller firm might only be able to afford to sponsor the local Sunday League team, but the aim is the same.
- Television — Some soap operas and weather reports are sponsored by well-known brands.

3) Sponsorship can create a high profile for your business or brand name, it's also a good way to target a market segment that is characterised by lifestyle (e.g. hobbies).
4) But if the thing you're sponsoring starts to get bad publicity, your company's image might suffer too.

Sales Promotion is a **Short-Term** Method Used to **Boost Sales**

1) Here are two examples of types of sales promotion:

Special Offers

Businesses may offer a discount on the product for a limited period of time, or two products for the price of one.

Product Trials

For example, cafés may offer free samples of new food or drink to get customers interested and to persuade them to buy the new products in the future.

2) An advantage of sales promotion is that it should encourage new customers to try a product.
3) This will boost sales in the short term but could also increase sales in the long term if customers like the product and continue to buy it once the promotion has ended.
4) A disadvantage of sales promotion is that customers get used to seeing products on promotion and may be reluctant to buy them at other times.
5) Using regular sales promotions might not be suitable for certain market segments. E.g. it might make a product in a luxury market seem like less of a luxury item, so it won't be useful for targeting a higher income segment that are looking for luxury.

EXAM TIP

Unsuccessful sales promotion can be pretty costly for a company...

You may get asked in an exam to analyse promotional methods. Make sure you talk about the advantages and disadvantages of the different types of promotion, and the effect on sales.

Methods of Promotion and Place

There are many ways to promote a business, and this page has one more you need to know. There's also some info on the final 'p' of the marketing mix — place.

Firms Can Also Use **New Technology** for **Promotion**

1) Technology provides many opportunities for promotion. E.g. firms can create social media accounts which advertise their products and improve their brand image. They are also able to make separate accounts for different parts of the business, and so may be able to target specific market segments.
2) An individual's internet search history can be used to create targeted advertising. Web pages have spaces for adverts, but the adverts found in these spaces will depend on what an individual has searched for in the past. So the adverts will be more likely to be something that the individual is interested in, and therefore will be more effective. Technology can also track an individual's location for use in targeted advertising. Although some individuals dislike this, and may be put off the brand.
3) Viral advertising is when adverts are shared on social media and are viewed many (perhaps millions) of times in a short time period. This is good for targeting segments of a market that use social media frequently (e.g. younger age groups).
4) As well as social media and targeted advertising, individuals may also decide to be a part of a business' mailing list. This means that they will get e-newsletters from the business about promotions and offers.

The **Place** Where Products Are Sold Must be **Suitable**

1) To make sure that a business' products are available to consumers in the right place the business needs to choose the most appropriate method of distribution. This depends on things like where the consumer is likely to shop, how many consumers they want their products to reach, how quickly they want the product to get to the consumer, and how much customer service the consumer will need.
2) Methods of distribution can include retailers (these sell products to consumers, e.g. from a shop) and e-tailers (these are companies that sell products online — i.e. that use e-commerce).
3) High-street retailers are likely to have employees on hand who customers can talk to, which is less likely for e-tailers, so selling products via retailers may mean that better customer service is provided.
4) E-tailers have many advantages. For example, they can sell to a global market — this means that they will have many more potential customers than if they used stores. They will also have lower fixed costs than retailers, since they won't have to pay to have stores open. This may mean that they can charge less for products.

REVISION TASK

Businesses have a lot of ways to persuade customers to buy products...

There are quite a few types of promotion to learn on pages 102-104. Check that you can remember them all by writing out a list of promotional methods, with a short explanation of how each one works.

Case Study — Topic 2.2

There's no denying it — there's a lot to learn in this topic. See how well you can apply what you've learned about the world of marketing by reading this real-life case study and answering the questions.

Business Report: Making Marketing Decisions

Pret a Manger

Pret a Manger is a British coffee and sandwich chain that sells organic coffee and handmade food. In 2020, sales dropped dramatically when the Covid-19 pandemic led to a huge reduction in the number of people working and shopping in city centres. Pret a Manger also faced strong competition from other high-street chains such as Costa Coffee and Greggs. In response, Pret launched a subscription service called YourPret Barista, the first of its kind in the UK. This entitled subscribers to five drinks each day for £20 per month, with the first month free. In 2023, this service was rebranded as Club Pret, with the price increasing to £30 per month but with the additional benefit of 10% off any food purchase.

Around this time, inflation was high, which meant food and drink products became more expensive for businesses and consumers. People struggled with the cost of living, which led to Pret increasing the wages of its staff to help them cope with the higher costs.

At the same time, Pret's sales were still lower than before the Covid-19 pandemic. This was due to the change in working patterns caused by the pandemic — many people moved to working from home at least part of the time, reducing the numbers buying drinks and lunch. Sales were also affected by high inflation reducing consumers' spending power.

The original subscription service was criticised by some users who complained that cold drinks such as smoothies were sometimes unavailable. After the rebrand, Club Pret included iced drinks such as iced coffee, but not smoothies.

Case Study Questions

Now you've read the case study, get your best answering hat on and have a go at the following questions.

1. **Outline** one way in which Pret has differentiated itself from its competitors. **[2 marks]**
2. **Outline** one external factor that may have influenced Pret's pricing decisions. **[2 marks]**
3. **Discuss** how a company such as Pret may decide on pricing strategies for its products in a competitive market. **[6 marks]**

'Evaluate' Question

Evaluate the likely impact on Pret a Manger of its decision to rebrand and increase the cost of its subscription service. **[12 marks]**

Video Solution

Worked Exam Questions

Now that you've looked at all four Ps of the marketing mix, it's time to test yourself. As usual, here's a few worked exam questions to give you an idea of how to answer questions.

1 Read the following information carefully and answer the questions that follow.

> Lisa owns a business which sells soft furnishings for houses. She sells her products mainly through high-street retailers. She is considering whether or not to sell her products through a number of online companies as well. The online companies that she is considering selling through have offered to buy her products for the same amount of money as the high-street retailers, but can sell them to customers at a lower overall price.

a) Outline **one** advantage of selling through high-street retailers rather than selling online.

[2 marks]

Sample Answer:

High-street retailers are likely to have employees on hand who can provide better customer service to customers, which may help to increase sales of the products.

You get one mark here for stating an advantage and one mark for giving the effect on sales.

b) Outline **one** reason why the online companies may be able to sell Lisa's products for a lower price than the high-street retailers.

[2 marks]

Sample Answer:

The online retailers will have lower costs because they won't have to pay to have stores open. This will mean that the online companies can charge less per product and still make the same amount of profit as the high-street retailers.

Cost is a big factor when it comes to what prices a company can charge, so in pricing questions, make sure you consider how the costs may be different in each scenario.

c) Outline **one** advantage to Lisa of selling her products through online companies, apart from being able to offer a lower price to customers.

[2 marks]

Make sure you read the whole question — you won't get any marks if you talk about the prices.

Sample Answer:

Lisa may have many more potential customers by selling through the online companies, since these companies may be able to sell to a global market.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

> Mamo Ltd. is an established company which makes food and drink products. One year it launches a new brand of energy drink for sports. It decides to celebrate the launch of its new product by sponsoring a marathon running event in a major UK city.

a) Outline how sponsorship of an event by a business works.

....

....

[2 marks]

b) Outline **one** reason why Mamo Ltd. may have chosen to sponsor the marathon instead of another kind of event.

....

....

[2 marks]

[Total 4 marks]

2 Read the following information carefully and answer the questions that follow.

> ElectricPages Ltd. is a company that sells e-reading devices and e-books. Their newest device is the "EezyReadr", a new type of e-reading device for reading electronic books. The EezyReadr uses a special type of e-paper which reflects natural light like normal paper. However, unlike other e-readers on the market, the EezyReadr uses e-paper which is in full colour. E-readers can be used to store many different electronic books. Users purchasing an EezyReadr also create an account which allows them to purchase electronic books and magazines from ElectricPages Ltd.'s website. The e-books on the website can only be used with ElectricPages Ltd.'s devices, and the new EezyReadr is also not compatible with e-books from other companies. It costs £55 to make one EezyReadr. The prices of other e-reading devices on the market range from £60-£300. Individual e-books are cheap to produce. The company sell e-books at a price that is 70% greater than the cost of producing them.

a) The average unit cost for ElectricPages Ltd. of producing an e-book is £4.40.
Calculate the price ElectricPages Ltd. will charge for each e-book.
Show your working.

price = £ ....

[2 marks]

b) ElectricPages Ltd. is considering two pricing strategies to establish EezyReadr on the market:

Option 1: Setting the price of an EezyReadr below the cost of making it.

Option 2: Charging a high price for the EezyReadr when it is first released.

Justify which **one** of these two options ElectricPages Ltd. should choose.
Write your answer on a separate piece of paper.

[9 marks]

[Total 11 marks]

Revision Summary for Topic 2.2

Just to make sure you're confident with all you need to know about marketing, here are even more questions for you to answer on all of the stuff you've covered in this topic.

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

For even more practice, try the quiz for Topic 2.2 — just scan this QR code!

Topic 2.2 Quiz

The Marketing Mix and the Design Mix (p.95) ☐

1) Describe how the quality of a product may affect how it is priced and how it is promoted. ☐
2) What is meant by differentiation? ☐

Product Life Cycles and Extension Strategies (p.96-97) ☐

3) What is the first stage in a product life cycle? ☐
4) Explain how the marketing mix for a product will be different when it's in the introduction stage of its life cycle compared to when it's in the maturity stage. ☐
5) Sketch a graph to show how sales of a product are likely to change throughout its life cycle. ☐
6) What is the purpose of an extension strategy? ☐
7) Give five different types of extension strategy. ☐

Price (p.100) ☐

8) Explain how a firm's costs will influence the price it charges for a product. ☐
9) Describe how the price of a product may affect demand for it. ☐
10) Give three internal factors that will influence a firm's pricing decisions. ☐
11) Describe how the market segment that a product is targeted at may influence its pricing. ☐

Pricing Strategies (p.101) ☐

12) Describe the main features of each of the following pricing strategies:
    a) price penetration, b) price skimming,
    c) competitive pricing, d) cost-plus pricing. ☐

Methods of Promotion and Place (p.102-104) ☐

13) What is meant by a company's brand image? ☐
14) Explain how having a strong brand image can benefit a firm. ☐
15) Give one argument for and one argument against choosing to advertise in a magazine rather than in a newspaper. ☐
16) Explain how leaflets and flyers may be used to target a particular market segment. ☐
17) How can firms use sponsorship for promotion? ☐
18) List two sales promotion methods a firm might use to boost sales. ☐
19) Give one advantage and one disadvantage to a firm of using sales promotion. ☐
20) Describe two ways in which social media can be used as a method of promotion. ☐
21) Describe how a company can use someone's internet search history for their advertising. ☐
22) State two factors that will affect the place where a company sells its products. ☐
23) Describe what is meant by an e-tailer. ☐

Methods of Production

Businesses need to work out how to make their products — this is called production or manufacturing. On this page you'll meet job production, and then flow production and batch production are coming up on the next page.

There are **Two Ultimate Reasons** for **Business Operations**

1) Business operations generally have one of two main purposes:
   - To produce goods, such as books or cars.
   - To provide services, such as haircuts or eye tests.
2) A business that produces goods has to decide the best way to manufacture its products.
3) There are a number of ways to do this depending on the type of product and the scale of the business operation.

Job Production is Making **One Thing** at a **Time**

- Job production is used when a firm manufactures individual, unique products.
- Each product has a unique design based upon the customer's specification. Examples include the building of ships and bridges, and handmade crafts such as furniture making and made-to-measure clothes.
- These products often require highly skilled labour and have a high labour-to-capital ratio (i.e. lots of workers are needed, but relatively little financial investment) — they can be very labour-intensive.
- As each product is unique, they can take a long time to make.
- Fewer products are made in a set period of time compared to other production methods, meaning the firm's productivity will be low.
- The business will generally have high costs, as they'll need skilled workers to produce the goods, who will have higher wages than unskilled workers.
- Since each product that's made is unique, the company is less able to take advantage of economies of scale, e.g. by buying materials in bulk. So their unit costs will be high.
- Higher costs mean that a company will need to give its products higher prices in order to make a profit.
- However, the products are unique and usually high quality, so customers may still buy the products even if the company sets its prices very high, which can lead to higher profits for a firm.

See p.78 for more on economies of scale.

Job production can be slow and costly...

Making one item at a time means that products can be made precisely how the customer wants them, whether it's a bridge or a wedding dress. Customers have to decide if they think it's worth the cost to buy these items.

Methods of Production

Here are two more methods of production that you need to know — flow production and batch production.

Flow Production is Making **Lots of Things Continuously**

1) This is the opposite of job production. All products are identical and the aim is to produce as many as possible along an assembly line, and make productivity as high as possible.
2) To be efficient, production has to be continuous with no stoppages — many flow production factories operate 24 hours a day with workers rotating in shifts.
3) The aim is to gain from economies of scale and so have low average unit costs to allow competitive prices.
4) Modern flow production techniques use robots, not people, to do most of the work.
5) Where workers do have jobs along the assembly line they are simpler tasks than in job production.
6) Flow production is highly capital-intensive (it needs a lot of money — to buy machinery, for example) and may also require a lot of space for product storage.
7) It is used for mass-market products. Most modern consumer goods are produced this way — chocolate bars, mobile phones, televisions... etc.

Flow production is also sometimes called mass production.

Batch Production is a **Mixture** of **Job** and **Flow** Production

1) In batch production, firms use flow production techniques to make a batch of one thing then stop, reorganise, and make a batch of something else.
2) It is suited to products that are identical to each other, but which are only produced in limited quantities — or for a limited amount of time. For example, furniture (where producers make a limited number of many different designs).
3) Batch production is faster than job production, since each product in a batch is identical. So firms that use batch production have higher productivity than firms using job production.
4) The company can also buy materials in larger quantities than job production, so can take advantage of economies of scale. This means unit costs are lower than job production, so prices can be lower and therefore more competitive.
5) However, time is needed to change between batches, so productivity is lower than for flow production.
6) Batch production is also more expensive than flow production because, for example, different machinery and tools might be needed to make different products. This means prices might not be as competitive as products made using flow production.

REVISION TASK

Different production methods are used by different businesses...

Cover this and the previous page and make a table, comparing job, flow, and batch production. Include examples of products, other than the ones here, that are made by each method of production.

Technology and Production

Technology can affect the productivity of a business. It can make things more efficient, but might mean that some employees are no longer needed. Great for the business, not always so great for the employee.

Technology can Affect Production

1) Advances in technology have created new ways to produce goods. For example, robots are now often used instead of human staff for tasks such as assembling products or packing products into boxes.
2) It's usually cheaper and faster for robots to do these jobs instead of humans.
3) Technology can also be used to help design products. For example, computers can be made to design products digitally, and this information can then be fed straight into the production machine.

BUSINESS EXAMPLE

- One example of this is 3D printing, which can be used to print a prototype (a test model) of a product from a digital file.
- This is faster and cheaper than traditional methods of making prototypes, making the design process more efficient.
- 3D printing also makes it cheaper and easier to produce customised items.
- A number of companies now exist that allow customers to design and purchase 3D-printed customised items, such as phone cases, toys and figurines. The company prints the item, and delivers it to the customer.
- Without 3D printing, the production of individual customised items like these would be a lot more labour intensive, time-consuming and expensive.

There are **Advantages** and **Disadvantages** to **Using Technology**

Advantages

- Technology can carry out processes more quickly and accurately than humans. So using technology can increase the productivity of the business and the goods that are produced should be of a more consistent quality.
- Technology means that machines can work 24/7, so production can be completely continuous.
- In the long term, it's cheaper to run machines than to pay humans to do the same thing.

Disadvantages

- Using technology can be very expensive — it can cost a lot to buy and install new machines and they may need regular maintenance and updates. Staff will also need to be trained to use the technology, which can be expensive and time-consuming.
- Some technologies might replace manual work, so staff might be worried they'll lose their jobs. This could demotivate them, causing their productivity to go down.
- Machines are often only suited to one task, which can make them inflexible. This makes it difficult if the business wants to change its production method (or the product it's making).

Most machines can't change between job roles but people can...

After all, a machine is made to do a small number of jobs in production — it can't take over someone else's job when they are off sick. This lack of flexibility limits how useful machines can be to businesses.

Managing Stock

Managing stock is really important for a business — the more they have the more it costs to store, but if they have too little then they risk running out. So it's a balancing act to get things just right.

Just-in-Time Keeps Stock Levels as **Low** as Possible

1) Just-in-time (JIT) aims to keep stock levels to the bare minimum — preferably zero.
2) Ideally, all raw materials come in one door, are made into products and go straight out another door — all 'just in time' for delivery to customers.
3) Computer systems are usually used to calculate stock levels and automatically order more when more supplies are needed.
4) The main benefit of JIT is that it reduces the cost of having to keep stock (you need less warehouse space, fewer warehouse workers, and so on).
5) It also means stock is less likely to go out of date as it shouldn't be stored for very long.
6) JIT helps cash flow, as there won't be much delay between buying supplies and selling the product.
7) The main problem is that it requires a lot of coordination between the firm and its suppliers. The firm needs to take lots of frequent deliveries of stock — if any of these deliveries don't arrive on time or there are mistakes with the order, the firm could run out of stock.
8) A JIT method also means that firms buy small quantities of stock at a time, rather than buying in bulk. This means they lose out on economies of scale (see page 78).

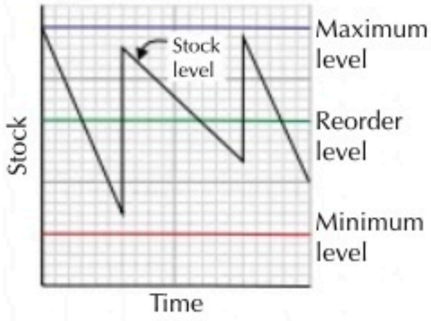
Bar Gate Stock Graphs Tell a Company when to **Order Materials**

1) Some businesses use a production and distribution system where they make sure they have buffer stocks (extra stocks) of items at every stage of the process — from raw materials to finished products — just in case there is a supply shortage or customer demand increases unexpectedly.

2) The main problem is that firms can be left with big stockpiles of items, which can be costly to store.

3) One method to keep control of stock is to use bar gate stock graphs.

4) These graphs monitor how much stock the business has, and show when a business should order more stock so that by the time the new stock has arrived, the business hasn't needed to use its buffer. They also show the maximum amount of stock a business can hold, so that it doesn't order too much.



Technology helps companies to manage their stock...

Most businesses will use computer systems to monitor stock and order more when levels are low — so the right stock should turn up when it's needed. This makes stock control much easier — especially in large firms.

Managing Stock and Suppliers

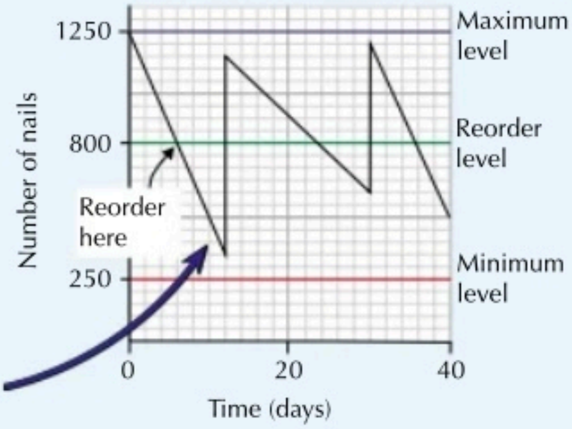
It takes a lot for a firm to run smoothly — managing stock is really important, as is procurement and logistics.

Businesses Need to Know When to **Order New Stock**

Now you know what bar gate stock graphs (p.112) are, this business example shows you how to read one.

BUSINESS EXAMPLE

- Chairs That Rock make wooden furniture. They always need to have nails in stock.
- When stocks of nails fall to 800, they reorder more.
- The hope is that by the time the new stock arrives the stock level won't have fallen below 250 nails.
- 250 nails is the minimum level of nails the firm always wants to keep — it is their buffer stock level.
- You can use the bar gate stock graph to identify when an order of new nails arrived — it's where the black line is vertical.



- The height of the vertical line shows how many nails were ordered. E.g. on day 12, stock arrives. The stock level rose from 350 nails to 1150 nails. So it ordered 1150 – 350 = 800 nails.
- The amount of time it takes stock to be delivered is the difference between the time where stock is at the reorder level and the time when stock arrives.
- Here, the first time stock hit the reorder level was on day 6. The stock arrived on day 12, so the delivery time was 12 – 6 = 6 days.

Procurement and **Logistics** are **Really Important** in a Business

1) Procurement means finding and buying things that a firm needs from suppliers outside of the firm. E.g. for a clothes manufacturer, procurement would involve finding and buying the material it needs.
2) Logistics means getting goods or services from one part of the supply chain to another. E.g. a clothes manufacturer would need to have the material it needs transported to its factory.
3) Having effective procurement and logistics systems in place improves the efficiency of a business — the business will have the supplies it needs at the right time.
4) This means, for example, there will be no breaks in production because materials aren't available, or that materials don't have to be wasted because they didn't arrive at the right time or weren't really needed.
5) Effective procurement and logistics can reduce the overall costs of a business.
6) If a business gets its supplies at the best price, and it doesn't waste money by being inefficient, it will have lower overall costs.
7) This will reduce the unit cost — the amount it costs to make each item. So the firm can make more profit on each item or pass the savings on to the consumer by reducing prices.
8) Well-managed procurement and logistics helps to ensure a firm's products are high-quality, a reasonable price and delivered on time. This improves both customer satisfaction and the firm's reputation.

Procurement and logistics often go hand-in-hand...

Businesses need to make sure that it is possible to get goods or services from a given supplier, which is where logistics comes in. If there are poor logistics systems in place, it could increase the costs from that supplier.

Working With Suppliers

As you're about to see, getting a firm to run like clockwork isn't just about what goes on inside the firm...

Companies Need to **Choose** Their **Suppliers** Carefully

One role of procurement is to choose a supplier and build a relationship with them.
To choose a supplier, the company should consider the following things:

Quality

- The quality of supplies needs to be consistent.
- Customers can be very selective about quality — the internet means it's easy for them to shop elsewhere if they're not happy with the quality of a product.
- Customers will associate poor quality with the business they buy from, not their suppliers.

Trust

- If a supplier lets a firm down, that firm may not be able to supply its own customers.
- So firms need suppliers they can trust.
- Suppliers need to deliver high-quality products on time, or give plenty of warning if they can't.

Availability

- If a supplier is often out of stock of items, it could affect the firm's production process.
- So they need to make sure their supplier can provide stock in sufficient quantities.

Delivery

Firms need to consider how much it will cost to get supplies delivered, and how quickly they want supplies to arrive.

Delivery from a supplier that's near the firm is likely to be cheaper and faster than from a supplier that's further away.

Delivery should also be reliable — if a supplier doesn't deliver stock on time or it gets damaged along the way, the business' production could be disrupted.

Price (the total cost of getting the product)

- Firms have to decide how much they want to pay for supplies and whether cost is their top priority.
- If they want to cut down the time it takes to serve customers, suppliers that offer faster delivery may rate higher than those that compete on price alone.
- Also, cheaper suppliers will often supply lower quality products. The firm needs to balance reduced costs with the quality of the product or service it wants to provide.

REVISION TASK

A bad supplier can have large effects on production...

You need to know the five factors involved in choosing a supplier. Cover this page, then check that you remember them by writing out the five factors and why each one is important to consider.

Worked Exam Questions

Long-answer questions might seem daunting, but they'll definitely come up in the exams so you need to learn how to answer them. By working through the example below you'll see the kind of things you need to write.

1 Read the following information carefully and answer the questions that follow.

Shake it Up is a company that makes milkshakes and delivers them to cafés across the UK. Shake it Up buys the milk for its milkshakes from a local farm. The factory manager can confirm how much milk he would like for the following day up to 6pm the day before. The farm always ensures that the order is ready for collection by Shake it Up's driver the next morning. The produce from the farm is of a high standard, so Shake it Up has been buying from the farm for many years. Recently, the farm has started to offer Shake it Up a discount on orders over £4000. Shake it Up buys enough to use this discount approximately once a week.

The directors of Shake it Up have decided to grow the business by making ice cream as well as milkshakes. As the product is new, they aren't sure what the demand will be. They are considering whether to use the same arrangement for buying and collecting cream from the farm as for milk, or whether to use Ribblethwaites, a larger farming corporation that they have not used before. Buying cream from Ribblethwaites would be cheaper than the local farm, but would mean Shake it Up had to order cream a week in advance. The cream would then be delivered to Shake it Up's factory free of charge.

You need to decide where you think Shake it Up should get their cream from. You need to show that you've weighed up the pros and cons first and make sure you give good reasons for your choice.

Justify whether Shake it Up should buy cream from the local farm or from Ribblethwaites.

[9 marks]

In your answer, you need to focus only on the choices you've been given in the question and not other potential places that Shake it Up could buy its cream from.

Sample Answer:

In your answer, think about the things that would be important to Shake it Up when choosing a supplier, e.g. price, delivery arrangements, reliability, quality, etc.

Ribblethwaites offers cream at a cheaper price than the local farm. This would be advantageous for Shake it Up as it would mean that they would have lower costs. Ribblethwaites also offers free delivery to Shake it Up, which would further lower costs as it would mean that they would not have to employ a driver to pick up the cream. However, the local farm offers a discount on orders over £4000. By ordering both cream and milk from the farm, Shake it Up is more likely to be able to use this discount, reducing its costs.

Shake it Up would have to collect the cream from the local farm. They are already paying someone to collect milk each day but they may have to invest in a larger van if they are ordering more produce. This would increase their costs.

Worked Exam Questions

Shake it Up don't know how reliable Ribblethwaites is. They do know that the local farm is reliable since it ensures that milk is ready for collection the morning after it has been ordered. Since Shake it Up have been able to trust the local farm in the past, it is likely to trust them to be reliable in supplying cream as well.

Use evidence from the information you're given in your answer. For example, the information says that the farm 'always ensures that the order is ready for collection...', which suggests Shake it Up can trust the farm to be reliable.

Shake it Up are unlikely to know how much cream to order because they don't know what the demand for ice cream will be. If the company orders too little cream then they may not be able to make enough ice cream to complete all of their orders, which could reduce customer satisfaction. If Shake it Up orders too much cream then some of it may go to waste, resulting in an increase in the company's costs. Having a more flexible arrangement for ordering cream would be beneficial for Shake it Up as they would be more likely to order the correct amount and therefore avoid having a surplus or shortage of cream. The arrangement with the farm is much more flexible than it would be with Ribblethwaites — Shake it Up is able to change their order for milk from the local farm up to 6pm the day before they collect it and they would be using the same arrangement for ordering cream. With Ribblethwaites, Shake it Up would have to know how much to order a week in advance, so they are less likely to order the correct amount of cream.

Make sure you explain each of the points you make.

Having cream of a high quality will make it easier for Shake it Up to ensure that its ice creams are of the same quality as its milkshakes. The farm's milk is of a high quality, therefore it is also likely to sell Shake it Up cream of a high quality, whereas the quality of produce from Ribblethwaites is less well known to Shake it Up. The fact that it is cheaper may mean that it is of lower quality.

In conclusion, Shake it Up should buy cream from the farm. The flexibility of being able to change the order up to 6pm the day before collection is a big advantage, as is the fact they know that the farm has reliable availability and supplies high quality produce. However, their choice may ultimately depend on the demand for the ice cream — if sales are low, they may not cover the higher costs of sourcing cream from the farm.

Don't forget to give an overall conclusion where you say which supplier you think Shake it Up should use. Summarise the main reasons why you think this is the best choice.

Exam Questions

1 Explain **one** advantage of a firm using batch production, rather than job production.

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[3 marks]

2 Read the following information carefully and answer the questions that follow.

The Reading Shelf is a firm that supplies books to bookshops around the UK. Orders from bookshops can vary a lot. It manages stock by keeping buffer levels of each book at all times and orders books in bulk from a supplier once a week. Occasionally, deliveries can be delayed. The supplier offers discounts on orders over 2000 units. The supplier has a fixed delivery charge, no matter how large the order is. The Reading Shelf stores books in a large warehouse which costs £1,500 per month to rent. So that there is space in the warehouse to store new titles of books, any copies of titles that are no longer selling are discarded at the end of each month.

The Reading Shelf is considering changing its method of stock control to just-in-time (JIT). Analyse the impact on The Reading Shelf of changing to just-in-time stock control.

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[6 marks]

Quality

Even the most productive business in the world won't get far if its products aren't up to scratch.

Customers Expect **Quality** from **All Parts** of a Business

1) Products should be good quality, of course. The quality can depend on different factors such as the materials the product is made from and the production method used to assemble the product.

2) At the very least, customers expect products to work properly, and not fall apart straight away.

3) For businesses that provide a service, the service needs to be good quality. For example, a bus company needs to make sure its buses are clean, well-maintained and arrive when they're supposed to.

4) If a firm is known for producing good quality items it will improve the firm's brand image.

5) This may give the firm a competitive advantage as customers will be more likely to choose them over competitors.

6) This means the firm may be able to charge more for its items and so could make more profit.

Businesses have to **Check** on the **Quality** of **Products**

- Monitoring quality helps a firm to control its costs.
- By making sure products are high quality, the firm should waste less from making products that it can't sell and compensating customers who return poor quality items.
- It should also reduce the cost of customer service, as there should be fewer complaints.
- Firms need to have good systems in place to make sure their products are high quality — quality control and quality assurance are two systems they can use (see next page).

Quality can make or break a business...

Most businesses aim to meet minimum quality standards but not increase costs. Customers might not always think they're fussy about what they buy, but they soon notice when quality falls below what they're expecting. It can cost the business a lot of money if customers return faulty goods and want replacements or refunds.

Quality Control and Assurance

You now know why having a good quality of products is important. Time to learn what businesses can do to ensure that they produce high quality goods — quality control and quality assurance.

Quality Control Involves Checking For **Faults**

1) Checking products as they're being made helps to find faults before a product reaches the customer.
2) Products are usually checked by trained quality inspectors at three different stages:

STAGE 1 Check raw materials from suppliers. →

STAGE 2 Take random samples to check quality of work in progress. →

STAGE 3 Take random samples of finished products and remove items if they're not of the right quality.

3) Defects may be spotted before they have finished making the product, reducing waste.
4) The process can be expensive for a firm (sometimes whole batches might need to be scrapped). But the cost would be greater if dissatisfied customers returned products or stopped buying them.
5) Quality control can also be carried out for businesses that provide services, even though there isn't a physical product to check. For example, many shops will employ 'secret shoppers' who visit the stores pretending to be customers, and check that the staff are providing the right quality of service. Staff in stores which have poor quality can then have training to improve their service.

Quality Assurance is about Making Sure Things **Don't Go Wrong**

1) Quality assurance means checking that quality is being maintained throughout each process involved in making the product. It aims to stop errors from being made in the first place, rather than needing to get rid of faulty goods once they've been made.

2) For example, at each stage of a production line employees should check that the work they pass on to the next stage is good quality.

3) A firm can have its quality assessed by an external body. It may be awarded a rating or certificate that it can display to assure customers that the business provides high quality products.

BUSINESS EXAMPLE

- VisitEngland is a company that recommends holiday ideas in the UK.
- Among other things, VisitEngland assess visitor attractions and awards them a star rating based on the quality of the whole experience — from promotional material to the visit itself.
- The attraction can use its VisitEngland star rating to attract customers, e.g. by displaying it on its website, leaflets, etc. This encourages the attraction to have high quality in all parts of the firm.

REVISION TIP

Businesses can work to make sure they have good quality products...

Quality control and quality assurance are quite similar, so make sure you understand the differences. Quality control is about checking the quality of products as they are made, and quality assurance is all about making sure the process of production will make good quality goods.

The Sales Process

At the end of the day, almost every business out there needs to sell a product, so knowing how to sell products is pretty important. So important in fact that there are two lovely pages all about sales coming up...

Customers Want **Good Service** Throughout the **Sales Process**

A sales process might involve these steps:

- Finding potential new customers — e.g. a company selling jet skis could have a stand at a boat show. They could ask people to leave contact details if they'd be interested in knowing more about jet skis.
- Approaching potential customers — e.g. calling people who left their contact details at the boat show and inviting them into the showroom.
- Assessing the customer's needs — e.g. finding out what sort of jet ski the person might want.
- Presenting — e.g. showing a customer a suitable jet ski in the showroom, telling them all about it and persuading them to buy one.
- Closing — e.g. getting the customer to formally agree to buying a jet ski (i.e. hand over their cash).
- Follow-up — e.g. calling the customer after the sale to check they are happy with their new jet ski.

Firms should provide great customer service throughout the sales process. Ways of doing this include:

1) Having Excellent **Product Knowledge**

1) Anyone in a firm involved in the sales process should know the firm's products inside out.
2) This is important for several reasons. For example:

- Any questions customers have can be answered quickly and accurately.
- Staff can make sure the customer is getting the product most suited to their needs, and may be able to sell them additional products to go with their initial purchase.
- The customer feels more confident buying from the firm — if staff seem like they don't really know what they're talking about, the customer may be wary about buying from them.

2) **Engaging** Well with the **Customer**

1) Firms should ensure that any experience customers have with them is as positive as possible.
2) This involves staff being polite and friendly with customers and making them feel important and valued. Customers shouldn't feel like they're being pushed into making a purchase, nor should they feel like sales staff aren't listening to what they want in a product.
3) Firms often think of extra ways to make the experience for the customer more positive, such as offering free refreshments or next-day delivery.

3) Having **Quick** and **Efficient** Service

1) The sales process should be quick and easy for a customer.
2) For example, the company should quickly answer any questions the customer has.
3) The sales process should also be efficient — this can be achieved by cutting down the number of steps it takes for a customer to get in touch with a company or to buy a product.
4) For example, sales people might be given authority to offer discounts to customers without needing to approve them with a manager first (which would take time).

Customers expect to be treated well by a business...

Providing good customer service is really important — customers who are unsatisfied with the customer service won't come back, and may tell others about their bad experiences. Best to keep customers happy.

The Sales Process

The sales process isn't as easy as 1, 2, 3. As well as those on the previous page, here come two more things a firm should think about doing to make their customers happy, along with why happy customers are so important.

4) Offering **Post-Sales Service**

Providing good customer service doesn't end when the sale is complete.
The firm needs to be available for their customers afterwards as well.

- The firm may offer user training — teaching the customer how to use the product they've bought.
- Some businesses have a specific after-sales helpline — customers can contact this to help resolve any issues they have with the product, e.g. if it's not working as they expected.
- Some products, like cars and boilers, might need to be serviced throughout their lifespan — firms can often do this for their customers.

5) Responding to **Customer Feedback**

1) Customers might give feedback to a business if they've had a particularly good or bad experience. This could be private feedback, e.g. an e-mail, or public feedback, such as an online review. The business may even ask the customer for feedback about their experience, e.g. to ask why the customer didn't buy from the business, or to ask how their experience could have been improved.
2) To make a customer feel their views are valued, companies should reply to the feedback. Their responses should be polite — even if the company disagrees with what the customer has said. They should also respond specifically to the comments, rather than giving a generic response. They might even offer a gift in thanks for the feedback, such as a discount on their next purchase.
3) This is particularly important for public feedback, as other potential customers might be influenced by how a business responds.
4) The business can use customer feedback to make changes to the business in order to improve the sales process for future customers.

Providing **Good Customer Service** is **Really Important**

Benefits of Good Customer Service

- Good customer service leads to high levels of customer satisfaction.
- Satisfied customers are more likely to remain loyal to the company and make repeat purchases from them in the future.
- Customers may be persuaded to spend more with a company that provides them with good customer service.

Dangers of Poor Customer Service

- If a company provides poor customer service they're likely to have dissatisfied customers.
- People like to tell others about poor customer service they have received. The business can end up with a poor brand image so customers will be less loyal, and may buy from other companies. This leads to a lower market share and lower sales.

Good customer service costs money — e.g. the wages of extra staff, and costs of providing after-sales care. But customer service is crucial — most firms recognise that the benefits of customer service outweigh the costs, and ultimately increase profitability.

EXAM TIP

Providing good customer service is an important part of sales...

You may be asked to analyse what techniques a business is using to provide good customer service. Don't just name the techniques — be sure to explain how they benefit the customer and business.

Worked Exam Questions

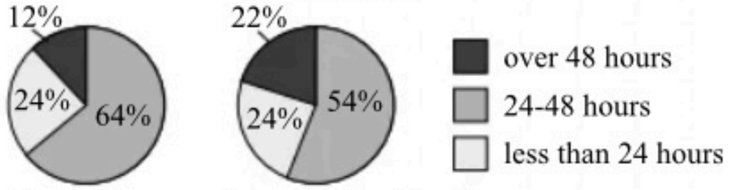
There's no better way for preparing for the exams than by practicing exam questions. On this page the question has already been done for you, but on the next page it's over to you to do the answers.

1 Read the following information carefully and answer the question that follows.

Saif runs SB Vans, a courier company that delivers furniture from factories to customers' homes. Saif guarantees delivery within 48 hours of the customer ordering their furniture. He will also set up the furniture for no extra cost.

Recently, SB Vans bought another courier company. This meant that there were many more new employees for the company. **Figure 1** shows how long it took for furniture to be delivered to customers in the month before and the month after the business began employing the new employees.

Figure 1



1 month before the new employees started

1 month after the new employees started

Make sure you have looked at and understood any data you are given in the exam before you start answering the questions about it.

Analyse how the effect the new employees have had on quality may impact SB Vans.

[6 marks]

You need to know what quality means in the context of a service. SB Vans are a courier firm, so the quality of their service depends on how quickly they can deliver things.

Sample Answer:

Since the new employees started, the proportion of deliveries that have been delivered within Saif's target of 48 hours has fallen from 88% (24% + 64%) to 78% (24% + 54%). This fall in the quality of the service provided by SB Vans may lead to customer complaints, as Saif guarantees delivery within 48 hours. It may also cause SB Vans to develop a poor reputation, so it could lose its competitive advantage.

It's a good idea to use data from the context to back up your answer. If you have to do any calculations, make sure you show your working out, so that the examiner can see how you came up with the figures that you use in your answer.

Customer complaints and a poor reputation may lead to factories deciding not to use SB Vans as their courier service anymore, which would cause the business' sales to fall. Customers could also ask for compensation for the late deliveries, which may cause SB Vans' costs to go up, and so cause their profits to decrease.

Make sure you clearly explain how a fall in quality standards could affect the business. Think particularly about how and why it could affect sales and profit.

Exam Questions

1 Explain **one** way in which quality assurance can help a firm to control its costs.

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[3 marks]

2 Read the following information carefully and answer the questions that follow.

> Bee's Travel is a company that sells luggage over the phone and via its website. When new telesales staff are hired, they are given training in the products that Bee's Travel sells. At the end of their training period, they are given a short test about the products, and given further training if they don't score over 75%. Bee's Travel aims to answer all enquiries via the website within 24 hours of receiving them, and employs two members of staff whose job is to answer website enquiries.

a) State **one** thing Bee's Travel does to ensure its sales process is efficient.

....

[1 mark]

b) Outline **one** impact on Bee's Travel of training its staff to have excellent product knowledge.

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....

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[2 marks]

[Total 3 marks]

3 Explain how an increase in a firm's spending on customer services can lead to an increase in profits.

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[3 marks]

Business Calculations

Businesses can find out how risky an investment is likely to be by working out the "average rate of return" (ARR).

You Can Find the **Average Rate of Return** on an **Investment**

1) The return on an investment is how much a business makes or loses as a proportion of the original investment that it puts in.
2) You need to be able to work out the average rate of return (ARR).
3) The average rate of return is a calculation of the average return on an investment each year over its lifespan.
4) To calculate it you first have to work out the average annual profit — you can do that using this formula:

An investment's lifespan is the length of time over which it earns money for the firm.

$$\text{average annual profit} = \frac{\text{total profit}}{\text{number of years}}$$

5) Then you can put your value for average annual profit into the following formula, to find the ARR:

$$\begin{array}{c}\text{ARR} \\ (\%)\end{array} = \frac{\text{average annual profit}}{\text{cost of investment}} \times 100$$

BUSINESS EXAMPLE

The table below shows the investment that a business made in a project that lasted 5 years. It also shows the profit the business made each year as a result of the investment.

	Profit				
Investment	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
(£10m)	£4m	£5m	£6m	£7m	£5m

Calculate the average rate of return (ARR) for the investment.

- First calculate the total profit of the project — this is the sum of the profit made by the project each year minus the cost of the initial investment: 4 + 5 + 6 + 7 + 5 – 10 = £17m
- Then divide the total profit of the project by its lifespan in years to find the average annual profit: 17m ÷ 5 = £3.4m
- Next, you use the formula above to find the ARR:

$$\begin{array}{c}\text{ARR} \\ (\%)\end{array} = \frac{\text{average annual profit}}{\text{cost of investment}} \times 100 = \frac{3.4}{10} \times 100 = 34\%$$

6) Profit forecasts can be used to predict the ARR for the future. This could be useful when deciding how much to invest into a business.
7) The bigger the ARR for an investment, the more successful the investment for the business. But a good ARR will depend on the firm involved, as well as the amount of money invested — an ARR of 6% would be a significant return for a £1m investment, but probably not for a £100 one.

Businesses won't invest in something without a good rate of return...

No matter how exciting an idea might be, investors want to make sure they will get back more money than they put in. So a very small ARR might mean that it isn't worth making the investment in the first place.

More on Business Calculations

Firms can find how much their business is making by working out its revenue and profit. There are two types of profit you need to know about — gross profit and net profit.

You Need to be Able to Calculate **Gross Profit** and **Net Profit**

1) A business can calculate its net profit and gross profit from its financial data.
2) Gross profit is the profit a firm makes after the cost of making products (the cost of sales) is taken into account.
3) Net profit is the profit a firm makes when all expenses (that includes the operating expenses, e.g. salaries and rent, the interest paid on loans and the cost of sales) are taken into account.
4) Before calculating any kind of profit, it's important to know what the revenue (see p.26) is. This is the total amount of money earned by the business through sales of products in the given time period — you can calculate it using the following equation:

revenue = sales price × quantity sold

The quantity sold can also be called the 'sales volume'.

5) To calculate the gross profit, take away the cost of sales from the revenue:

gross profit = revenue – cost of sales

6) To calculate the net profit, you can use the following formula:

net profit = gross profit – (operating expenses + interest)

The total profit calculated for the business example on the previous page is really the net profit for the business.

BUSINESS EXAMPLE

The table on the right shows the sales and costs of a small business selling hand-made lamps.

Calculate the net profit of the business.

Sales price of 1 lamp	£35
Quantity of lamps sold	1500
Cost of sales	£14 700
Operating expenses	£10 000
Interest	£7500

- First calculate the revenue — this is the sales price multiplied by the quantity sold:

  £35 × 1500 = £52 500

- Then subtract the cost of sales from revenue to calculate gross profit:

  £52 500 – £14 700 = £37 800

- Then subtract the operating expenses and interest payments from the gross profit to calculate net profit:

  £37 800 – (£10 000 + £7500) = £20 300

REVISION TIP

Gross profit doesn't include the indirect costs of making products...

You need to know the difference between gross profit and net profit. Remember — gross profit only accounts for costs directly linked to making the product, but net profit takes all expenses into account.

More on Business Calculations

You covered a little bit on gross and net profit on the previous page. Now, just to throw some more numbers at you, here's a page on profitability ratios. These show what happens to each pound spent by a customer.

Gross Profit Margin Ignores **Indirect Costs**

Gross profit margin is the fraction of every pound spent by customers that doesn't go directly towards making a product:

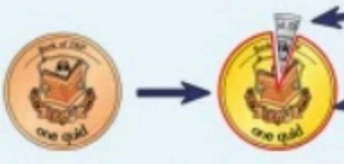
Gross profit margin = gross profit ÷ sales (revenue) × 100

Here's how to calculate the gross profit margin using this equation:

BUSINESS EXAMPLE

1) Yummo Chocolates makes and sells chocolates. In 2019, its gross profit was £167 000 and its revenue was £180 000.
2) This means the gross profit margin was: → 167 000 ÷ 180 000 = 0.92777... 0.92777... × 100 = 92.78% (to 2 d.p.)
3) Or, if you prefer, you can think of it like this...

For every £1 spent by customers...



...7.22p was used to make the product...

...leaving 92.78p — but this still has to pay for expenses like salaries, interest, and so on.

What counts as a good gross profit margin depends on the type of business, but the higher the percentage the better. The margin can be improved by increasing prices or reducing the direct cost of sales. Some businesses (e.g. a supermarket chain) can have a low gross profit margin because they sell in high volumes and they need to keep their prices competitive to survive.

Net Profit Margin Takes **All Costs** into Account

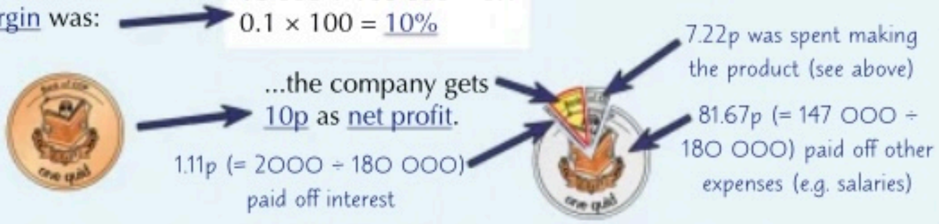
Net profit margin is the fraction of every pound spent by customers that the company gets to keep (after all its costs have been paid):

Net profit margin = net profit ÷ sales (revenue) × 100

BUSINESS EXAMPLE

1) In 2019, Yummo Chocolates had operating expenses of £147 000 and the interest it paid on loans totalled £2000. Its gross profit was £167 000, which meant that it had a net profit of £18 000 (£167 000 – £147 000 – £2000).
2) The revenue in 2019 was £180 000, so the net profit margin was: → 18 000 ÷ 180 000 = 0.1 0.1 × 100 = 10%

For every £1 spent by customers...


...the company gets 10p as net profit.
7.22p was spent making the product (see above)
81.67p (= 147 000 ÷ 180 000) paid off other expenses (e.g. salaries)
1.11p (= 2000 ÷ 180 000) paid off interest
one quid
one quid

Just like for gross profit margins, what counts as a good net profit margin depends on the business, but the higher it is, the better. Net profit margin is often larger for new companies which are still small and don't have many indirect costs. As businesses grow, these costs go up and net profit margin decreases.

EXAM TIP

Knowing what fraction of income goes into costs can be pretty useful...

The gross profit margin and net profit margin vary a lot between different types of firms, so a profit margin that's good for one business might not be good enough for another. If you're asked to calculate margins in the exam remember that gross profit margin should be larger than net profit margin.

Business Data

Businesses collect a lot of information as they go along, about their own and their competitors' finances, their customers and the market in general. It's not just for fun though, all that information comes in handy.

Data Can Help a Business to **Make Decisions**

1) Businesses have to keep track of how well they are doing. They also need to be able to predict the effect of making certain decisions.
2) Different types of data can help inform a business on the impact of a decision, and so help to support or justify it, or prevent the business from making a mistake.
3) The following types of data may be used by businesses when making decisions:

Businesses Can Use **Financial Data**...

- E.g. cash flow forecasts (p.33-34) can show whether or not a business decision (e.g. investing cash in new equipment) would lead to cash flow problems.

- Calculations of profit and loss (p.27) and profitability ratios (see previous page) can help a business to see if it should reduce costs or try to increase revenue.

- And predicting the average rate of return (p.124) of an investment can help a business to determine if an investment would be worthwhile.

...**Marketing Data**...

- Both primary and secondary market research data (p.12) can give an indication of how customer preferences are changing over time.

- So a business can use this data to see if a business decision is likely to lead to increased sales.

...And **Market Data**

- For example, knowing the market share of different businesses, the costs of supplies and the prices of competitor products.

- This may help a business to see if it should, for example, lower its prices, or reduce the cost of its supplies.

Businesses can't tell the future, but data helps them predict it...

All sorts of data are useful to businesses so that they know how well they are doing, what competitors are doing, and if the market might be changing. This means that businesses can anticipate problems and adapt.

Business Data and Performance

Firms will often compare data on their own finances to those of previous years to see how well they're doing. They may also compare this data to their competitors' finances to identify areas in which they could improve.

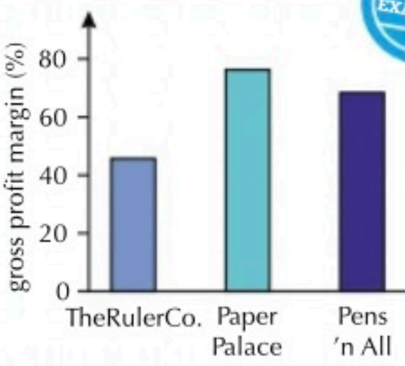
There are Some **Limitations** to **Financial Data**

1) As you saw on the previous page, there are lots of different types of financial data that can be used to understand how well a business is performing, and make decisions about the running of the business.

2) In order to use some types of financial data, it's important that there is another source of appropriate data to allow a comparison. For example, a firm could compare how their financial data has changed over time, or they could compare it against a competitor who produces similar products.

BUSINESS EXAMPLE

- TheRulerCo. is a company that makes and sells stationery.
- It uses the bar chart on the right to compare its financial performance with two of its competitors.
- The bar chart shows that TheRulerCo. has a lower gross profit margin than two of its competitors. So either its cost of sales is higher, or it is charging relatively less for its products.
- This will mean that TheRulerCo. will be able to make decisions about certain parts of the business, e.g. reducing the cost of raw materials, to help improve its profit margins.



3) However, using financial data to understand business performance isn't perfect. In some cases it may not be possible to directly compare two different sources of data. For example, one firm in the comparison may be much larger or operate in a different country.

4) Even if the same firm's financial performance for different years is compared, it can still be hard to tell exactly what may have caused any changes. That's because there are often lots of different variables which may affect a company's financial performance — such as how well the economy is doing.

5) Another limitation to using financial data to assess business performance is that it only includes quantitative data and not qualitative data (see p.13). Qualitative data can include things like customers' opinions, which can be useful for determining what changes a business should make.

Financial data doesn't always tell the whole story...

Using financial data isn't foolproof as you can see, but without it businesses wouldn't be able to get much of an idea of their performance. Businesses can use their financial data alongside other forms of data such as market research, to get a more well-rounded idea of how their business is performing compared to their competitors.

Case Study — Topics 2.3 and 2.4

Businesses have to work really hard to make sure the company runs smoothly — and all while trying to make a profit. See if you can apply what you've learnt in Topics 2.3 and 2.4 to a real business example.

Business Report: Making Operational and Financial Decisions

Marks and Spencer plc

Marks and Spencer plc ('M&S') is a large British retailer with around 960 stores in the UK, over 405 stores overseas, and an international e-commerce website. It is well-known for providing customers with a wide range of goods, including clothing and food. In the year ending April 2023, Marks and Spencer had sales of £11 988 m and a net profit of £364.5 m.

Marks and Spencer says it works closely with its suppliers. Each factory must meet minimum standards set by Marks and Spencer, otherwise they risk having their orders cancelled and no longer being used as a supplier. For example, one of the minimum standards is that each batch of products made in a textiles factory must have a batch card. This card should detail all the processes that the product has been through in the factory, whether the product was received in good condition at each stage, and whether each process was completed satisfactorily. It should also name the worker responsible for each process.

Some of M&S's factories use a 'just-in-time' method of stock control. One way factories can see how well they're doing at this is by monitoring the length of time between raw materials arriving at the factory and the finished products that use these materials being sent out.

Case Study Questions

Think about all the different things you've learnt in the previous two topics to answer the following questions.

1. **Define** the term 'quality assurance'. **[1 mark]**
2. **Outline** one way in which Marks and Spencer's use of suppliers may affect its competitiveness. **[2 marks]**
3. **Outline** one reason why batch production would be a suitable method for a factory that makes clothes for Marks and Spencer. **[2 marks]**
4. **Analyse** the impact that encouraging the use of just-in-time stock control would have on Marks and Spencer's net profit margin. **[6 marks]**

'Calculate' Question

Calculate Marks and Spencer's net profit margin in the year ending April 2023. Show your working, and give your answer to two decimal places. **[2 marks]**

Video Solution

Worked Exam Questions

That's it for business calculations and data. Check how well you've understood these pages by going through the worked exam questions below, then have a go at the exam questions on the next page.

1 A catering company has a sales revenue of £3m and a gross profit of £690 000.
The cost of its operating expenses (other than cost of sales) and interest are £510 000.

a) Calculate the gross profit margin for the company.
Show your working.

[2 marks]

Sample Answer:

When you see an amount of money written with an 'm' in it, like the £3m above, it means 'million', i.e. £3 000 000

gross profit margin = (gross profit ÷ sales revenue) × 100

= (690 000 ÷ 3 000 000) × 100

= 23%

gross profit margin = ...23.......... %

Make sure you show the equation you're using — even if you don't get the right answer, you could get a mark for using the correct equation.

b) Calculate the net profit margin for the company.
Show your working.

[2 marks]

Sample Answer:

net profit = gross profit – (other operating expenses and interest)

= 690 000 – 510 000 = 180 000

You have to calculate net profit first so that you can use it in the second formula.

net profit margin = (net profit ÷ sales revenue) × 100

= (180 000 ÷ 3 000 000) × 100

= 6%

net profit margin = ...6.......... %

c) A year later, the company calculates its gross profit margin to be 25% and its net profit margin to be 4%. Outline why the company may have decided to find cheaper insurance, based on this information.

[2 marks]

You should be able to recognise insurance as a common operating expense for a business. So the price of insurance will affect the firm's net profit margin.

Sample Answer:

The business has a relatively low net profit margin compared to its gross profit margin.

Reducing the amount the business spends on insurance would help to increase its net profit margin.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

Jackie has a business which makes snacks for cafés and shops in the UK, called Jack's Snacks. Jackie decides to research the financial performance of her business in 2020 compared to previous years. She analyses how the revenue of Jack's Snacks has changed over four years. Her results are shown in **Figure 1** on the right.

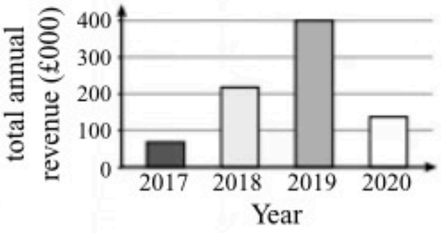


Figure 1

a) Identify the largest annual revenue that Jack's Snacks made over the four years in **Figure 1**.

....

[1 mark]

b) Outline **one** limitation of using the change in revenue of Jack's Snacks in order to analyse its financial performance in 2020.

....

....

[2 marks]

[Total 3 marks]

2 Read the following information carefully and answer the questions that follow.

Speedy Wheels is a courier company that delivers items in parts of the United Kingdom. Speedy Wheels is considering investing £200 000 in new delivery vans. It predicts that these vans will last for approximately five years before they will need to be replaced. The managers of Speedy Wheels forecast the increase in profit as a result of the new vans in the five years following this investment. Their results are shown in **Figure 2** below.

Figure 2

	Year 1	Year 2	Year 3	Year 4	Year 5
additional profit (£000)	170	130	150	150	120

a) Use the information above to calculate the average rate of return (ARR) of the delivery vans. *Show your working.*

average rate of return = ...

[2 marks]

b) Outline how the predicted ARR may affect Speedy Wheels' likelihood to invest in the vans.

....

....

[2 marks]

[Total 4 marks]

Revision Summary for Topics 2.3 and 2.4

Now for a bumper edition of revision summary questions. Cast your mind back to Topic 2.3 for the first lot then go on to the juicy questions for Topic 2.4.

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

For even more practice, try the quiz for Topics 2.3 & 2.4 — just scan this QR code!

Topics 2.3 & 2.4 Quiz

Methods of Production and Technology (p.109-111) ☐

1) Give an example of a product made by job production. ☐
2) a) What is meant by 'flow production'?
   b) Give one advantage of flow production over job production.
   c) Give an example of a product made by flow production. ☐
3) What is meant by 'batch production'? ☐
4) Explain one way that using technology in the production process can improve productivity. ☐

Managing Stock and Working with Suppliers (p.112-114) ☐

5) What is meant by a just-in-time (JIT) method of stock control? ☐
6) Give one advantage of using a JIT method of stock control. ☐
7) Explain how a business can use a bar gate stock graph to manage its supplies. ☐
8) What do the terms 'procurement' and 'logistics' mean? ☐
9) Give three important factors that a business should consider when choosing a supplier. ☐

Quality and The Sales Process (p.118-121) ☐

10) Explain two reasons why it's good for a business to ensure customers get products that are good quality. ☐
11) Describe the difference between quality control and quality assurance. ☐
12) Explain one reason why having good product knowledge allows sales staff to provide good customer service. ☐
13) Give one example of a post-sales service that a business might offer their customers. ☐
14) Explain why a business should always respond to customer feedback. ☐
15) Explain why providing good customer service is important for customer loyalty. ☐
16) Explain how poor customer service could lead to a big fall in a firm's revenue. ☐

Business Calculations (p.124-126) ☐

17) Write the equation for finding the average rate of return for an investment. ☐
18) Describe the difference between gross profit and net profit. ☐
19) a) What does the net profit margin represent?
    b) How is the net profit margin calculated? ☐

Business Data (p.127-128) ☐

20) Give three different types of financial data that a business might use to inform business decisions. ☐
21) Give two types of market data which may be used by a business to inform a business decision. ☐
22) Explain why it may sometimes be difficult to directly compare financial data from different companies. ☐

Internal Organisational Structures

A firm could have thousands of employees. The internal organisational structure is how all of these people are organised inside the firm. The next three pages will cover some of the different structures that a firm can use.

Organisational Structures **Organise People**

1) It's important that a firm has a clear internal organisational structure. This makes it easy for everybody in the business to know who is responsible for what, and helps the company to make sure that it has people in every job role to deal with each of its activities.
2) Most firms have layers in their organisational structure.
3) There are four basic roles of staff, with different responsibilities, that make up the layers:

Directors

Directors are responsible for the business' strategy (its overall direction). The directors decide on strategy and targets at regular board meetings.

The number of people on each layer generally increases as you go down the organisational structure.

Senior Managers

Senior Managers organise the carrying out of the directors' strategy. A large firm may have middle and junior managers ranked below the senior managers.

Supervisors and Team Leaders

Supervisors or Team Leaders are ranked below managers. They usually look after specific projects or small teams of operational or support staff.

Operational and Support Staff

Operational Staff and Support Staff are workers who aren't responsible for other staff. They're often given specific tasks to perform by managers, supervisors or team leaders.

4) The directors are on the top layer of an organisational structure, and operational and support staff are on the lowest layer.
5) The chain connecting directors to operational and support staff is called the chain of command.
6) At each level, a certain amount of responsibility is delegated (passed on) to people in the level below.
7) The span of control is the number of workers who report to one manager.

Each staff member has a place in the organisational structure...

A firm needs to have a balance between its span of control and chain of command. It's hard to find this balance — if the span is too wide, or the chain is too long, communication within the firm (p.136) could start to suffer.

More on Internal Organisational Structures

Firms need to decide how much power to give to people at each layer of their organisational structures.

Organisations can be **Centralised** or **Decentralised**

How much power and authority is delegated at each layer in an organisational structure will depend on whether the bosses want a centralised or decentralised structure.

Centralised Organisations

1) All major decisions are made by one person or a few senior managers at the top of the structure.
2) Advantages are that these senior managers tend to have plenty of experience, and can get an overview of the whole business. Policies will be uniform throughout the business.
3) On the downside, if all decisions need to be made by one or two people, it can slow down decision-making and communication of decisions can take a long time to filter through to employees. This means that the organisation reacts slowly to change.
4) Senior managers at the top of the organisational structure can become very powerful. But depending too heavily on a few people at the top can cause problems if those people lack specialist knowledge or if they 'lose their touch' and start making poor decisions.

Decentralised Organisations

1) The authority to make most decisions is shared out — for example, power might be delegated to regional managers or to more junior employees in individual branches of a business.
2) Advantages are that employees can use expert knowledge of their sector to make decisions. They don't always need to communicate these decisions with managers above them for approval, so changes can be made more quickly. This is really important in competitive environments, where a firm needs to respond to changes or opportunities in the market more quickly than its competitors.
3) Another advantage is that senior managers at the top of the organisational structure are not responsible for making as many decisions. This means there's less need for a central office where decisions are made (a headquarters), which can decrease a firm's fixed costs (see p.26).
4) The disadvantages are that inconsistencies may develop between departments or regions. Also, the decision-makers might not be able to see the overall needs of the business.

BUSINESS EXAMPLE

- Supermarket chains (e.g. Tesco, Asda) have a decentralised structure.
- Big decisions on things such as branding and marketing campaigns are made by directors at the top of the organisational structure.
- But each store usually has its own manager who makes important decisions about the running of their store, e.g. decisions about recruiting and training staff, and controlling stock levels.

Senior managers make fewer decisions in a decentralised structure...

Make sure you understand why some firms prefer a centralised structure, while others prefer to decentralise.

More on Internal Organisational Structures

Firms also have to decide how many layers of management to have. Each type of structure has an impact on management and communication, so managers need to choose a structure that will suit their firm best.

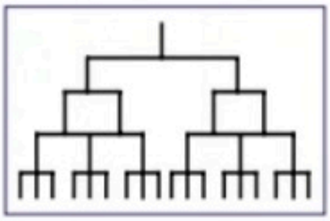
An **Organisational Structure** can be **Hierarchical** or **Flat**

1) A hierarchical organisational structure has more layers than a flat organisational structure. In a flat structure there are very few (if any) layers between directors and operational and support staff.
2) Whether a firm's structure is hierarchical or flat will affect communication and management in the firm:

There's more about communication within a firm on p.136-137.

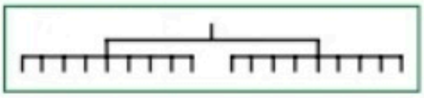
Hierarchical Structures

- There is a long chain of command with more layers of management.
- This can make communication between the top and bottom of the structure difficult and slow because more people need to pass on the message.
- Each manager only has a narrow span of control. This can make a firm more effective as managers can monitor the employees they are responsible for more closely.



Flat Structures

- There is a short chain of command. This means that messages can be passed on quickly.
- However, each manager also has a wide span of control. This means that each manager has to manage a lot of employees at once — it can be difficult to manage a lot of employees effectively.



Businesses Need to Choose the **Most Appropriate** Structure

1) The type of organisational structure a business has depends on many things, e.g. the business' size.
2) A small business is likely to have a flat structure — it's often just run by the owner without the need for any additional managers.
3) As the business grows and employs more staff, managers might be needed to help organise and control things, so the organisational structure becomes hierarchical.
4) The bigger the business, the greater the number of managers needed (and the greater the costs). A big business might be easier to operate if it splits into different parts (e.g. different regions).
5) Businesses often start with a centralised structure, but decentralise as they get too big to make all the decisions at the top or if it's better for different areas of the business to be managed separately.

EXAM TIP

Different businesses choose different structures...

You may get asked in the exam to analyse the organisational structure of a business. Make sure you know how the different structures work, as well as their advantages and disadvantages.

Communication

A successful business needs its people to work together. This involves passing on information and sharing ideas with each other — so effective communication is a big deal in business.

Firms Have to **Communicate Effectively**

1) Effective communication in a business is really important — it means that different areas of the business work well together, and that everyone in the business knows what they should be doing and why.

2) It can improve staff motivation as staff will know what's going on in the firm and are likely to feel more confident that they're doing their job properly.

3) In order to communicate effectively, messages need to reach the people that need to receive them without unnecessary delay and without being misinterpreted.

4) Face-to-face is one of the most effective ways to communicate — body language can help express the message and it's easy to confirm the message has been properly received and understood.

Barriers to **Communication**

Firms need to overcome barriers to communication in order to communicate effectively. These include:

Noise

It's difficult to hold a conversation in a noisy environment, such as a busy factory.

Jargon

Technical language used in one department may not be understood by people in other departments.

Personalities

Some employees may feel uncomfortable communicating with other people in the firm because, e.g. they don't get on personally or feel they are unapproachable.

Distance

Many businesses operate across different sites, sometimes many miles apart, so it can be difficult to speak to people face-to-face.

REVISION TASK

Not all parts of a business communicate in the same way...

Check that you understand how to communicate effectively by writing down some ways that people in a business may communicate (e.g. email, meetings) and which barriers are a problem for each type.

Communication

Businesses need to get the balance right between having insufficient (not enough) and excessive (too much) communication. Getting the communication balance wrong can cause inefficiency and demotivated staff.

Insufficient Communication Can **Cause Problems**

1) Insufficient communication can lead to inefficiency. People may be slow to receive important messages about what they should be doing, meaning time and money is wasted on them doing things incorrectly.
2) It may also mean that information isn't passed on between different departments or teams — this may mean that some tasks end up getting done more than once, or are not done in ways that are best for the business as a whole.
3) Insufficient communication can demotivate staff. They may feel frustrated if a lack of communication is stopping them from doing their job properly. Also, they may not feel valued if they're not told about things that are going on in the firm.

There's more on why it's important to keep staff motivated on page 144.

Excessive Communication Can Also **Cause Issues**

1) Excessive communication can also lead to inefficiency. It takes time to pass on and receive messages — if people are frequently involved in communication about things that don't directly affect them it can waste valuable time.
2) People may also start to take less notice of messages, and miss out ones that are important to them.
3) Excessive communication may mean many people are trying to pass on the same message — employees may get conflicting information from different sources and there may be confusion over which information is correct.
4) This can lead to time being wasted while the workers find out the correct information, or mistakes being made while workers follow the wrong information. Both of these things reduce efficiency and productivity, which can reduce output.
5) Staff may feel demotivated by excessive communication — they may feel overwhelmed with all the information they are receiving and annoyed if it's affecting their ability to do their job well.

Getting the level of communication right is really important...

Communication has to be controlled so that people get the information that they need, without having to waste time filtering out the information they don't need or getting confused by mixed messages.

Worked Exam Questions

Have a look at these worked exam questions to help you prepare for the exams. Try reading the questions and thinking about how you would answer them before you read through the sample answers.

1 Which **one** of these statements describes the role of operational staff in a firm?
Put a cross (X) in **one** correct box.

[1 mark]

Sample Answer:

A They are responsible for the business' strategy. ☐

B They usually look after small teams of other staff. ☐

C They manage team leaders. ☐

D They are often given specific tasks to perform by team leaders. ☒

Read all the options properly before deciding on your answer.

Make sure you mark your answer clearly. Pay attention to any instructions you're given before a set of multiple choice questions — they might tell you how to mark your answer and what to do if you want to change it.

2 Explain **one** disadvantage to a firm of having a centralised structure.

[3 marks]

Sample Answer:

Having a centralised structure can slow down decision-making because all major decisions are made by one person or a few senior managers at the top of the structure, meaning the firm may react slowly to change.

You get one mark for stating a disadvantage of a centralised structure...

...and another two marks for explaining how centralisation causes this disadvantage and the overall effect on the firm.

You could have also said that having a centralised structure can mean it takes longer for the communication of decisions to filter down to employees, which also means a firm may be slow to react to change.

3 Explain **one** advantage to a firm of having a hierarchical structure rather than a flat structure.

[3 marks]

This is another explain question, so you need to clearly state an advantage and then talk about why it's beneficial and the overall effect it has on the firm.

Sample Answer:

Each manager will have a narrow span of control, so they can monitor the employees they are responsible for more closely and so the firm may operate more effectively.

Make sure you use business terms in your answers where you can.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

Houghton & Son Ltd. make light fittings for homes.
When the business started it had one small store in the owners' home town and a flat organisational structure. Now the business has a head office and a chain of stores across the country.
Part of the firm's organisational structure is shown in **Figure 1**.

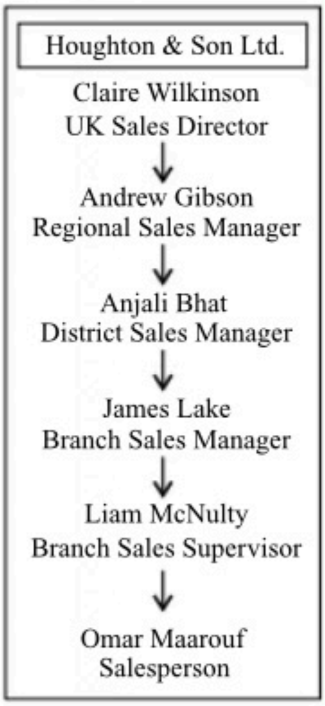

Houghton & Son Ltd.
Claire Wilkinson
UK Sales Director
Andrew Gibson
Regional Sales Manager
Anjali Bhat
District Sales Manager
James Lake
Branch Sales Manager
Liam McNulty
Branch Sales Supervisor
Omar Maarouf
Salesperson

Figure 1

a) State **one** responsibility that Claire Wilkinson is likely to have in her role.

....

....

[1 mark]

b) State **one** characteristic of a flat organisational structure.

....

[1 mark]

c) Outline **one** reason why Houghton & Son Ltd. employed more managers as the company grew.

....

....

....

[2 marks]

[Total 4 marks]

2 Explain **one** reason why effective communication in a business is important.

....

....

....

....

[3 marks]

Ways of Working

All employees have a contract of employment — a legal agreement between themselves and their employer. The contract includes details about the way the employee works, e.g. how many hours they are required to do.

Employment Can be **Full-Time** or **Part-Time**

1) Working full-time usually means around 35-40 hours a week. Part-time staff work 'less than a full working week' — usually between 10 and 30 hours per week.
2) Some people prefer to have a full-time job, or need to work full-time for financial reasons. Other people work part-time so they can spend more time with family or on other interests.
3) There are pros and cons of both types of employment for businesses.
4) Full-time staff are good if there's enough work for them to do, since they are likely to have only one job and so the business will have more control over the hours they work.
5) But employing staff part-time can make more financial sense if a business is only really busy at certain periods. It also means they can fill in when other staff members are absent (e.g. due to sickness or holidays).

Staff Can Work **Flexible Hours**

- Employees that have been with a firm for at least 26 weeks can request to work flexibly.
- This is when working hours and patterns are adapted to suit the employee. E.g. a full-time employee might be allowed to work their 37 hours over four days, rather than the usual five days.
- This can be very motivating for staff as it makes it easier to fit other commitments around their working life.

Staff Can be Employed on **Zero Hour Contracts**

- Some employees have zero hour contracts — this means that the employer doesn't have to offer them any work at all. Nor does the employee have to accept any work that is offered to them.
- The contracts are used in businesses where there can be lots of fluctuation in demand, e.g. hotels.
- They are a cheap form of labour for businesses — they don't waste money paying staff when they're not really needed.

Employees need to know the hours they are expected to work...

An employer and employee have to agree on how they are going to work. This can include how many hours the employee will work per week, and the amount of flexibility in their start and finish times each day.

More on Ways of Working

Contracts can also give details on how long a person will work for a company. There are three different types of contract that you need to know about — permanent, temporary and freelance. Read on to find out more...

Employees Can Have **Different Types** of **Contracts**

1) Employees can be hired on permanent, temporary or freelance contracts — these affect how long a person will work for the company, and how much security they have in their job.

Permanent

A permanent contract of employment has no end date. The person stays at the firm unless:

- They choose to leave.
- They're dismissed for misconduct.
- Their job is made redundant.

Temporary

A temporary contract is for a fixed period (e.g. six months, one year). At the end of the period, the contract can be renewed, or the person can leave the company.

Freelance

A freelance contract is when a self-employed person is recruited by a company, usually to work on a specific project. Freelancers can usually be hired and dismissed at short notice.

2) Temporary and freelance contracts can make it easier for the firm to employ people with particular skills for a particular period (without the commitment of a permanent contract).
3) This can make it easier to adjust the number of staff according to the needs of the business.

Technology Has Had an **Impact** on the **Ways** Employees Work

1) Advances in technology have made processes more efficient — e.g. many repetitive tasks can be done much faster and more accurately by computers than by staff. Working with technology is now a much bigger part of people's jobs, which has changed the way many people work.

2) Technology has made it easier for employees to share information and communicate with each other. E.g. documents can be shared via the cloud so they can be accessed by employees in any location at any time (as long as they have an internet connection), employees can communicate via emails and video calls, and mobile devices allow people to communicate from many different locations.

3) This has impacted on the ways that people work. E.g. it's easier for employees to work remotely (i.e. in locations away from their employers' offices, such as at home or on a beach in the Maldives).

REVISION TASK

People can work in many different ways...

There's been a lot to learn on the last two pages. Try making a table with the different types of contract an employee can have. List the pros and cons of each, and give a real-life example for each.

Recruitment

Recruitment is the process of finding the best person to do a job. Businesses need to recruit people to increase their size, to gain new people with expertise or to replace staff that have left.

Businesses Need to Be **Clear** About the Job on Offer

There are several steps involved in recruitment — job analysis, advertisement and selection.

1) Job analysis is where a firm thinks in depth about every little detail of the job in question.
2) The business then advertises the job. This usually includes two documents — a job description and a person specification, which are produced from the job analysis.
    - Job description — includes the formal title of the job, the main purpose of the job, the main duties plus any occasional duties. It will also state who the job holder will report to, and whether they will be responsible for any other staff.
    - Person specification — lists the qualifications, experience, skills and attitudes needed for the job.
3) Then the business has to go through the candidates that apply and select the best one.

A Firm can Recruit People **Internally** or **Externally**

The purpose of a job advert is to get as many suitable people as possible to apply for the job. Firms can use job adverts to recruit internally or externally:

Internal Recruitment

- Internal recruitment involves recruiting current employees into new roles. The job position is advertised within the company.
- The advantages are that it's much cheaper, the post can be filled more quickly, the candidates will already know a lot about the firm, and bosses may already know the candidate well.
- On the downside, there will be no 'new blood' or new ideas, and the employee's move will leave a vacancy to fill.

External Recruitment

- External recruitment involves recruiting from outside the business. The job can be advertised in lots of places, e.g. employment websites, the firm's own website, in the media.
- An advantage is that the job advert will be seen by more people, so it's more likely that the firm will find somebody really suited to the job.
- However, advertising externally isn't cheap — employment websites and the media can charge a fee, and the firm may have to pay to boost its own jobs search page in web search rankings.

The business' needs determine which method of recruitment they use. E.g. internal recruitment may be used for a job which requires an in-depth knowledge of the firm's processes, whereas external recruitment may be used if a lot of new recruits are needed at once or no one in the firm has suitable qualifications.

CVs and **Application Forms** Help a Firm Find the **Best Candidate**

Most firms ask candidates to send a written application for a job — these are used to decide who to interview.

1) A curriculum vitae (CV) is a summary of a person's personal details, skills, qualifications and interests. It's written in a standard format to give the firm the basic facts. Almost all firms ask for a CV.
2) Many businesses also ask candidates to fill in an application form. These forms give the firm the information it wants — and nothing else. This means they're much quicker to process and more relevant to the job than open-ended letters written by the candidates.
3) Many companies now like to use online application forms, where applicants fill in their details on the company's website. This allows the company to compare the applications using computer software.

Recruitment can cost a lot of time and money...

Businesses can often get hundreds of applications for one job. Reading application forms, conducting interviews and setting tests all take time — some businesses have a whole recruitment department to deal with this stuff.

Training and Development

Training employees helps them to keep developing their skills, so they can be great at their jobs.

There are **Different Types** of Training

1) Staff need training when they start working for a company so that they know how to do their job.
2) But even when they've been working for a company for a while, employees still need ongoing training. This could be to retrain them so they learn new processes or how to use new technology, or just to help them develop so that they're doing their job as well as possible.
3) Many firms plan the training they want their employees to have, but in some firms employees are encouraged to self-learn — this is where employees seek out their own training and development. E.g. they might be given access to online videos, apps and courses which teach different skills. They can pick and choose what they want to learn depending on where they want to take their career.

Informal Training

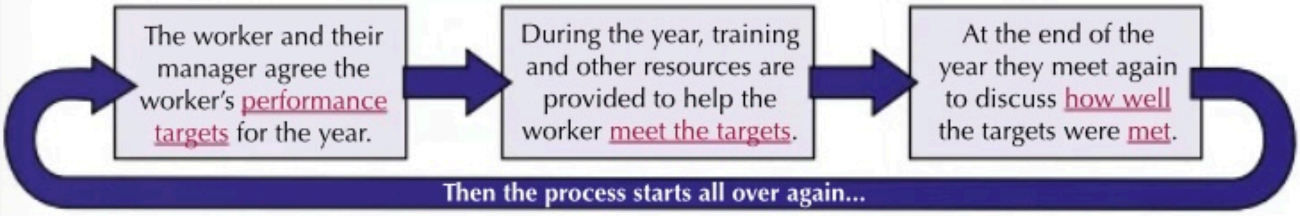
- Informal training is usually done 'on-the-job' — the employee learns to do their job better by being shown how to do it, and then practising.
- There is no strict plan to the training and it is usually given by other workers.
- It's cost-effective for the employer because the employee works and learns at the same time.
- A problem is that bad working practices may be passed on.

Formal Training

- Formal training often involves a set plan with learning objectives and a schedule.
- The training can involve learning in a firm's training department or away from the workplace, e.g. at a local college.
- It's more expensive than informal training, but it's often higher quality because it's usually taught by people who are better qualified to train others.

Performance Reviews Help Employees to **Develop**

Performance reviews can also play a part in employees' training and development — this is when firms set employees targets and then review their performance to make sure they're developing as they should.



The worker and their manager agree the worker's performance targets for the year.

During the year, training and other resources are provided to help the worker meet the targets.

At the end of the year they meet again to discuss how well the targets were met.

Then the process starts all over again...

People who meet or beat their targets may be rewarded with higher pay or a promotion. If a worker doesn't meet their targets, the manager can decide what training or support they might need to help them improve.

There are **Many Benefits** to **Training** and **Development**

1) Training and development can make staff more productive — it makes staff better at their jobs, which means they may work faster. This could lower the business' unit costs (see next page).
2) Training can help staff stay up to date with changes in the business, such as knowing how to use new technology.
3) Overall, training and development is likely to make staff feel motivated — it shows the firm is interested in how well staff are doing their jobs and are willing to help them improve, and it makes staff feel like they're progressing in the firm. This might increase staff retention — see next page.

Staff retention is when a business keeps its staff.

Staff want the opportunity to improve and develop...

Good training motivates staff, which may make them work harder and be more likely to stay in a firm.

Motivation

This page covers some financial methods for motivating staff. It all boils down to the fact that the more money you give employees, the more valued they'll feel and the happier they'll be doing their job.

Motivated Staff are **More Productive**

Being more productive means staff can produce goods faster or using fewer resources. This reduces the unit cost of each item produced.

1) Motivated staff work harder, which leads to high productivity — workers want the firm to do well and so do their jobs as well as they can to help this happen.
2) Staff who are motivated and happy in their jobs are more likely to stay with the firm. Having a high level of staff retention is good for a firm as it means less time and money is spent having to recruit and train new workers, which reduces the firm's costs.
3) Having highly motivated staff may also attract new employees to the firm. This makes recruiting new staff easier because there are likely to be lots of applicants for vacancies.

Financial Motivation can be **Wages** or a **Salary**

1) Most people get remuneration (payment) for the work they do for an employer (some people might not, e.g. if they're doing voluntary work).
2) Often, the more that a worker is paid, the more motivated they feel to do their job.
3) Workers can be paid with wages or with a salary.
4) Wages are commonly paid weekly or monthly — usually to manual workers. The amount paid is based on the amount of work that the employee does.
5) A salary is a fixed amount paid every month — this doesn't change even if the number of hours worked does change. It is usually paid to office staff who do not directly help to make the product. A salary of £24 000 means you are paid £2000 per month.
6) The advantage of a salary is that the firm and workers both know exactly how much the pay will be. However, it doesn't link pay directly to performance, so it doesn't encourage employees to work harder.

Employers can Give Staff **Financial Extras**

On top of their regular payments (wage or salary), some firms offer staff extra financial incentives to help to motivate them. For example:

1) Commission — this is paid to sales staff for every item they sell. It is given to them on top of a small basic salary.

2) Bonus — a lump sum added to pay, usually once a year. It's commonly paid if the worker (or the firm) has met their performance targets.

BUSINESS EXAMPLE

- John Lewis Partnership is a business that employs around 80 000 staff.
- One of the main aims of the business is to keep its employees as happy and motivated as possible.
- Each year, if performance targets are met, John Lewis Partnership gives a proportion of its profits to its employees as a bonus. Each employee gets a percentage of their salary.

3) Fringe benefit — any reward that is not part of a worker's main income. Examples include staff discount on the firm's products, the use of a company car, gym membership, a daily meal allowance or free health insurance. All of these perks cost money for the business, and save it for the worker.

REVISION TIP

More money can make staff very happy...

Remember, the term 'financial motivation' can mean more than just a worker's regular income.

More on Motivation

Now, some more ways that firms try to keep their employees happy and stop them from leaving. First up is another financial method (promotion), and then three non-financial methods.

Promotion Can **Boost Motivation**

1) Employees can be trained to learn new skills. This means they can start to take on new tasks and have greater responsibility.
2) This may lead to them getting a promotion, which is likely to mean they get paid more. So promotion (and the opportunity to get promoted) can motivate staff.

A promotion is when an employee is given a higher status or position within a firm.

Job Rotation Gives Workers a **Change** Now and Again

1) A lot of production jobs are boring and repetitive, e.g. working on a factory assembly line. Job rotation reduces this by occasionally moving workers from one job to another.
2) This motivates workers as they don't get so bored. They also learn to do different jobs, so if someone's ill, someone else will be able to cover.
3) The problem is that if one boring job is replaced by another it doesn't improve job satisfaction.

Job Enrichment Gives Workers **Better Things** to Do

1) Job enrichment is when a worker is given greater responsibility — for example supervising the work of new staff.
2) As a worker becomes good at their job they become more productive — they can do the same work in less time. So, giving workers more responsibility can stop them from feeling that their increased productivity is being punished by more of the same work.
3) It gives workers new challenges and so may motivate them to work harder.
4) A problem is that they may expect a pay rise as well.

Autonomy Allows Workers to **Make Their Own Decisions**

1) Autonomy means giving workers the freedom to make their own decisions. Workers may be told their overall goal but not told specifically how they should achieve it.
2) This responsibility motivates workers as it makes them feel trusted and like their contribution is valued.

BUSINESS EXAMPLE

- Ranbir Singh owns a small chain of hotels in the North of England. Each hotel has a head chef in its restaurant.
- Ranbir gives each head chef autonomy over the menus in their restaurant. Ranbir decides how profitable the menu should be, but leaves it up to the head chef to decide what dishes go on the menu, where the ingredients will come from, the price of each dish, etc.

REVISION TIP

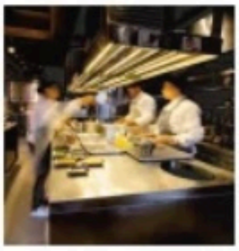
There are lots of ways to keep staff motivated...

Make sure you learn all the methods of motivating staff both here and on the previous page. Remember, there are five financial methods (remuneration, commission, bonuses, fringe benefits and promotion) and three non-financial methods (job rotation, job enrichment and autonomy).

Case Study — Topic 2.5

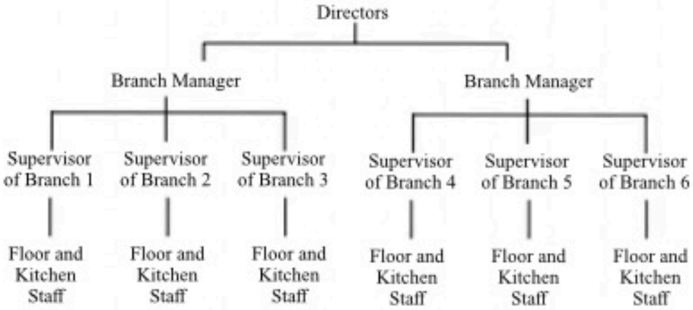
Organising, recruiting, training and motivating people — there's a lot to remember in this topic. It's time to apply what you've learnt about human resources to a case study.

Business Report: Making Human Resource Decisions



Lekker Restaurants

Lekker Restaurants is a rapidly expanding restaurant chain. It has recently opened a new branch and recruited all of its ten floor and kitchen staff by advertising on the noticeboards at a local university. The firm will also need to quickly recruit a supervisor for the new branch. The manager of the new branch manages another two local Lekker branches. The organisational structure of the business is shown below.


Directors
Branch Manager
Branch Manager
Supervisor of Branch 1
Supervisor of Branch 2
Supervisor of Branch 3
Supervisor of Branch 4
Supervisor of Branch 5
Supervisor of Branch 6
Floor and Kitchen Staff
Floor and Kitchen Staff
Floor and Kitchen Staff
Floor and Kitchen Staff
Floor and Kitchen Staff
Floor and Kitchen Staff

Lekker is employing half of its new floor and kitchen staff on zero hour contracts. The other staff are all employed on a part-time basis.

The new staff all receive training when they join the company. After five weeks, the supervisor will have a meeting with each employee and set them performance targets. Each employee will also have a performance review in six months time. The new staff are also given an information pack about Lekker when they start. This includes a brief description of the company and a staff discount card which entitles them to 30% off food at any Lekker branch.

Case Study Questions

Think about what you've learnt about human resources to answer these questions.

1. **State** one reason why Lekker may have chosen to advertise for its floor and kitchen staff on noticeboards rather than in the local or national press. **[1 mark]**
2. **State** one factor that might motivate someone to apply to work for Lekker. **[1 mark]**
3. The supervisor in each branch has the authority to make certain decisions without consulting the branch manager. **Outline** one advantage of this. **[2 marks]**
4. **Outline** how the supervisor's system of monitoring performance may reduce the money Lekker needs to spend on recruitment. **[2 marks]**

'Justify' Question

Lekker needs to hire a supervisor for its new branch. It has two options:

Option 1: Recruit internally from another branch.

Option 2: Recruit externally.

Justify which one of these two options Lekker should choose. **[9 marks]**

Video Solution

Worked Exam Questions

Here is another set of worked exam questions. Take time to look at them closely and make sure you understand the sample answers. You could be asked similar questions in the real exams.

1 Read the following information carefully and answer the question that follows.

Chem and Co are a pharmaceutical company. They need to recruit a team of senior chemists to help them develop a new drug. They are planning to advertise the roles on a specialist science recruitment website.

State **one** quality Chem and Co may look for when selecting candidates for the new roles.

[1 mark]

This is a 'state' question so you just need to give one answer — you don't need to explain it.

Make sure your answer is related to the specific job and company described in the text — for example, you should have noticed that they need senior scientists and are advertising in places targeted at specialist scientists.

Sample Answer:

Appropriate qualifications in scientific disciplines.

There are other answers you could have given too — e.g. the skills needed to do the job, the right attitude needed for the job or previous relevant experience in laboratories.

2 Discuss how a firm can use non-financial methods to motivate its employees.

[6 marks]

Although the question doesn't tell you how many methods to write about, the number of marks the question is worth might give you a clue. For 6 marks, the examiners will probably be expecting you to discuss at least three methods.

Sample Answer:

A firm could use job rotation, meaning that its employees are occasionally moved from doing one job to another. This may make them feel motivated as it may stop them from becoming bored.

As this is a discuss question, make sure you give a brief description of each non-financial method and then explain how it motivates employees.

A firm could use job enrichment, meaning that its employees are given greater responsibility. This can make them feel motivated as it will give them new challenges and prevent them from feeling that once they become good at their job they are just given more of the same work to do.

A firm could give their employees autonomy, meaning that they are given the freedom to make their own decisions. This may make them feel motivated as they may feel trusted and feel like their contribution is valued.

Exam Questions

1 Read the following information carefully and answer the questions that follow.

Packman's Glazing is a business that sells doors and windows. They pay their junior sales staff an annual salary of £15 000. On top of their salary, sales staff also get 5% commission on each sale they make.

Managers give junior sales staff the contact details of customers that have enquired about doors and windows and a monthly target of how many sales they should make. Junior sales staff who regularly meet their monthly targets are more likely to be promoted.

In recent months, Packman's Glazing have lost two of their junior sales staff to a new, rival firm. One of the factors that persuaded the staff to move was the rival firm's pay scheme. They don't pay sales commission, but they pay junior sales staff an annual salary of £24 000.

a) State **one** method of financial motivation used by Packman's Glazing.

....

[1 mark]

b) Drew is a junior salesman at Packman's Glazing.
In March his sales totalled £19 000 and his income from his salary before tax was £1250.
Calculate the total amount that Drew would have been paid in March before tax.
Show your working.

£ ....

[2 marks]

c) The owners of Packman's Glazing are considering two options for how they pay their sales staff.

Option 1: Stay with their current pay scheme.
Option 2: Pay their staff a salary of £24 000 and remove commission.

Justify which **one** of these two options Packman's Glazing should choose.
Write your answer on a separate piece of paper.

[9 marks]

[Total 12 marks]

Revision Summary for Topic 2.5

So that's it for this topic on making human resource decisions. Here are some carefully-crafted revision summary questions to make sure you haven't been skim-reading too much...

- Try these questions and tick off each one when you get it right.
- When you've done all the questions for a topic and are completely happy with it, tick off the topic.

For even more practice, try the quiz for Topic 2.5 — just scan this QR code!

Topic 2.5 Quiz

Internal Organisational Structures (p.133-135) ☐

1) Outline the responsibilities of each of the following job roles:
   a) supervisor, b) support staff. ☐
2) What layer of staff is usually ranked immediately below directors? ☐
3) Give one advantage of a centralised organisation. ☐
4) Give two disadvantages of a decentralised organisation. ☐
5) Which would have more layers of management — a hierarchical or a flat organisational structure? ☐

Communication (p.136-137) ☐

6) List four barriers to communication. ☐
7) Explain why insufficient communication can lead to inefficiency in a firm. ☐
8) Explain why excessive communication can demotivate staff. ☐

Ways of Working (p.140-141) ☐

9) What does it mean if a staff member is 'full-time'? ☐
10) Describe one way in which a firm may allow an employee to work flexible hours. ☐
11) Explain the difference between a permanent and a temporary contract of employment. ☐
12) What is a freelance contract? ☐
13) Explain why advances in technology have led to more employees working remotely. ☐

Recruitment, Training and Development (p.142-143) ☐

14) What is a job description? ☐
15) Give two disadvantages to a firm of filling a vacant position internally rather than externally. ☐
16) Why might a firm prefer candidates to fill in an application form rather than just send in their CV? ☐
17) What does it mean if an employee is encouraged to 'self-learn'? ☐
18) Explain one advantage and one disadvantage of informal training over formal training. ☐
19) Explain how performance reviews can help staff to develop. ☐

Motivation (p.144-145) ☐

20) Explain how motivating staff affects productivity in a business. ☐
21) Give two forms of remuneration that employees may get. ☐
22) What does it mean if a business pays its employees commission? ☐
23) Give three examples of fringe benefits a firm might offer its employees. ☐
24) How does job rotation help to motivate employees? ☐
25) Explain what is meant by the term 'job enrichment'. ☐
26) Explain why autonomy may help to motivate workers. ☐

Practice Exams

Once you've been through all the questions in this book, you should feel pretty confident about the exams.
As final preparation, here is a set of **practice exams** to give you a taste of what the exams will be like.
The papers in your real exams will look a lot like this, but the case studies will be provided in a separate booklet.
The time allowed for each paper is 1 hour 45 minutes.

CGP Practice Exam Paper
GCSE Business

GCSE Business

Paper 1

In addition to this paper you should have:
- A calculator.

Centre name					
Centre number					
Candidate number					

Time allowed:
- 1 hour 45 minutes

Surname
Other names
Candidate signature

Instructions to candidates
- Use black ink or ball-point pen.
- Write your name and other details in the spaces provided above.
- Answer **all** questions in the spaces provided.
- Do all rough work on the paper.
- Cross out any work you do not want to be marked.

Information for candidates
- The marks available are given in brackets at the end of each question.
- There are 90 marks available for this paper.
- You are allowed to use a calculator.

Advice to candidates
- In calculations show clearly how you worked out your answers.

For examiner's use			
Q	Attempt N°		
	1	2	3
1			
2			
3			
4			
5			
6			
7			
Total			

Section A
Answer all questions.

For multiple choice questions, put a cross (×) in the box alongside your answer. If you wish to change your answer, put a line through your original answer. For example: ☒. Then mark your new answer with a cross in the box.

1 a) Which of the following correctly describes market research using a 'focus group'? Put a cross (×) in **one** correct box.

A A list of questions are handed out to members of the public. ☐

B A small group of people discuss their attitude towards a product. ☐

C A person is observed using a product. ☐

D A business uses reports and articles to learn about market trends. ☐

[1 mark]

b) Which of the following is **not** an element of the marketing mix? Put a cross (×) in **one** correct box.

A promotion ☐

B product ☐

C price ☐

D profit ☐

[1 mark]

c) Explain **one** disadvantage to a business of locating near businesses of the same type.

....

....

....

[3 marks]

d) State **two** examples of different forms of digital communication.

1. ....

2. ....

[2 marks]

[Total 7 marks]

Turn over for the next question

2 a) Which of the following businesses is most likely to prioritise the location of the market when choosing where to locate?
Put a cross (✕) in **one** correct box.

A A company that sells stationery over the internet. ☐

B A hairdresser. ☐

C A courier service that delivers items nationally. ☐

D A company that arranges package holidays over the phone. ☐

[1 mark]

b) Which of the following describes what is meant by retained profits?
Put a cross (✕) in **one** correct box.

A Profits that are paid to the shareholders of the business. ☐

B Money from personal savings. ☐

C Profits that are invested back into the business. ☐

D The amount of profit that is paid as tax. ☐

[1 mark]

c) A business sells sandwiches for £3.50 each. They sell 1500 sandwiches each month.
Calculate the total revenue the business makes from sandwiches in a year.

total revenue = £ ....

[2 marks]

d) Explain **one** way in which high unemployment may cause problems for a business.

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[3 marks]

e) Explain **one** disadvantage of a sole trader business structure.

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[3 marks]

f) Explain **one** way in which a business might be affected if health and safety legislation is not followed.

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[3 marks]

[Total 13 marks]

Turn over for the next question

3 a) Which **two** of the following are short term sources of finance?
Put a cross (X) in **two** correct boxes.

A overdraft ☐

B personal savings ☐

C share capital ☐

D bank loan ☐

E trade credit ☐

[2 marks]

b) **Figure 1** shows an incomplete cash flow forecast for a company that gives its customers 2 months credit to pay.

Cash Flow Forecast				
£	April	May	June	July
Total orders this month (for payment in 2 months)	1000	1300	1400	1500
Cash inflow	300	350	ii)	1300
Cash outflow	1000	1200	1300	1350
Net cash flow	(700)	i)	(300)	(50)
Opening balance	1300	600	(250)	(550)
Closing balance	600	(250)	(550)	(600)

Figure 1

Complete **Figure 1** by filling in the blanks, assuming that all customers make their payment 2 months after their order has been placed.
Show your working.

[2 marks]

c) Explain **one** benefit to a business of carrying out market research.

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[3 marks]

d) Look at **Figure 2** and answer the question that follows.

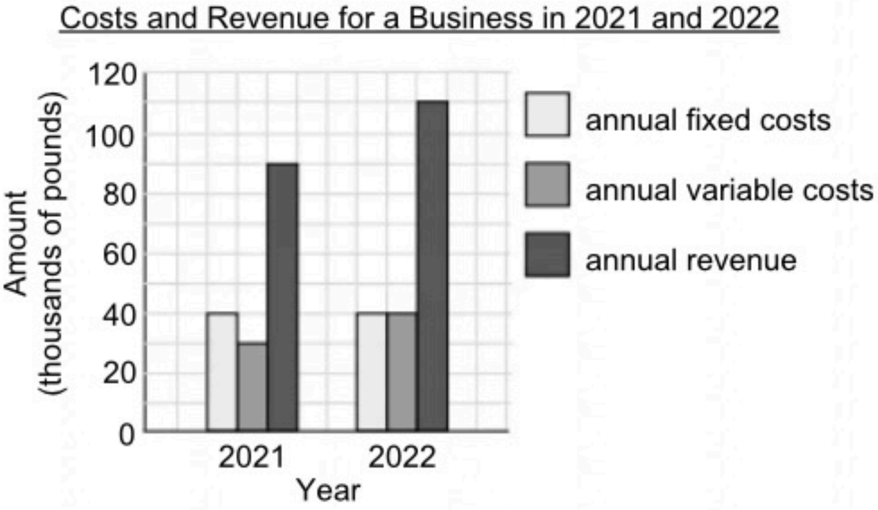

Figure 2

Calculate the percentage increase in profit between 2021 and 2022.
Show your working.

percentage increase = ...%
[2 marks]

Question 3 continues on the next page

Turn over ▷

e) Discuss the purpose to a business of writing a business plan.

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[6 marks]

[Total 15 marks]

[Total marks for Section A = 35 marks]

Section B
Answer all questions.

Read the following information carefully and answer the questions that follow.

Oxenforth Tennis Club Ltd. is a company that owns a tennis club and gym in the town of Oxenforth. A few years ago, it invested in building new indoor tennis courts, which were completed at the end of 2019. Since then, its revenue has increased by 32% and profits have increased by 19%. As a result of this success, it has increased staff wages by 6% and cut the membership fees it charges its customers by 2.5%.

In 2022, Oxenforth Tennis Club Ltd. carried out a survey of some of its customers by giving them a questionnaire to fill in. It had carried out the same survey previously in 2017. The results for one of the questions on the questionnaire are shown below in **Figure 3**.

Q1 What is the most important aspect of a tennis club for you?

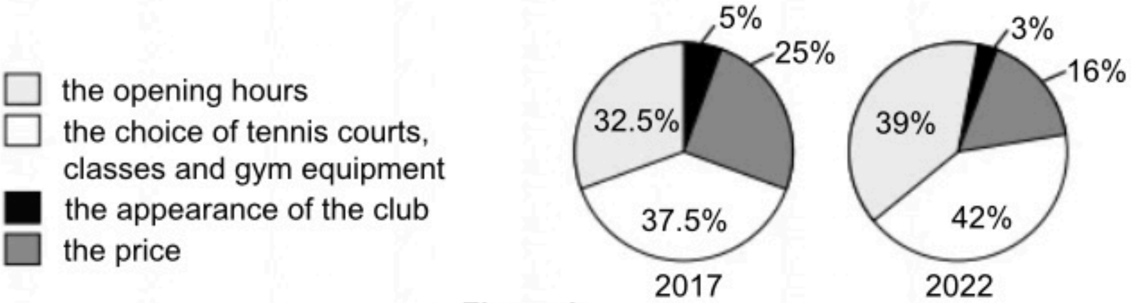

Figure 3

Before the survey, Oxenforth Tennis Club Ltd. had flyers for the tennis club that showed a picture of the outside of the centre and displayed the price of monthly membership. Afterwards, it changed the flyers to show an image of the tennis courts, a list of classes that they provide, and a list of the gym equipment available.

4 a) Identify which aspect of the tennis club saw the biggest change in perceived importance between 2017 and 2022.

....

[1 mark]

b) Outline **one** way in which Oxenforth Tennis Club Ltd. may have satisfied the objectives of its customers.

....

....

[2 marks]

Question 4 continues on the next page

Turn over ▷

c) State **two** advantages to Oxenforth Tennis Club Ltd. of using questionnaires over other forms of primary research.

1. ....

2. ....

[2 marks]

d) Analyse the effect that changing the flyers is likely to have had on Oxenforth Tennis Club Ltd.'s sales.

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[6 marks]

[Total 11 marks]

5 When building the indoor tennis courts, Oxenforth Tennis Club Ltd. took out a bank loan of £250 000 to help cover costs. The loan had a total repayment of £265 750.

a) Calculate the percentage interest on Oxenforth Tennis Club Ltd.'s bank loan.
Show your working.

percentage interest = ... %

[2 marks]

Oxenforth Tennis Club Ltd. planned to use the additional profit from the indoor tennis courts to invest in renovating their changing rooms. It expected these renovations would cost £210 000. **Figure 4** shows the extra profit that the indoor tennis courts have brought in to Oxenforth Tennis Club Ltd.

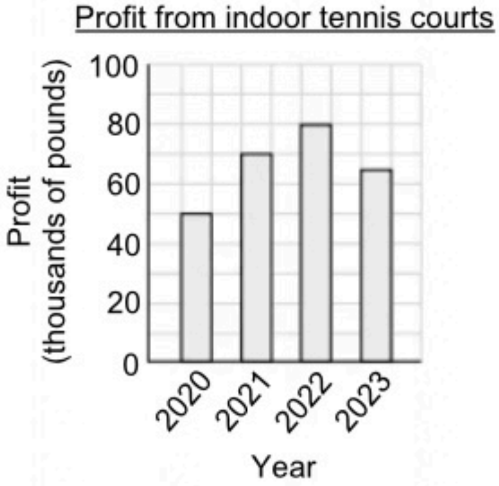

Figure 4

b) Calculate the year that the indoor tennis courts had earned enough total profit to cover the cost of renovating the changing rooms.
Show your working.

year = ...

[2 marks]

[Total 4 marks]

Turn over for the next question

Turn over ▷

6 Read the following information carefully and answer the questions that follow.

Oxenforth Tennis Club Ltd. launched a website at the same time as opening the new indoor tennis courts. The website shows information on opening hours, classes and prices. It also shows when each of the tennis courts are available to be booked. New members can join through the website, and existing customers can book and pay for the tennis courts and classes using their debit or credit card.

a) Analyse the effect that launching a website may have had on Oxenforth Tennis Club Ltd.

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[6 marks]

b) Oxenforth Tennis Club Ltd. are considering two options for improving the business:

Option 1: Buying up-to-date exercise machines for the gym.
Option 2: Extending the opening hours from 08:30-20:00 to 07:00-22:00.

Justify which **one** of these two options Oxenforth Tennis Club Ltd. should choose.

[9 marks]

[Total 15 marks]

[Total marks for Section B = 30 marks]

Turn over for the next question

Turn over ▷

Section C
Answer all questions.

7 Read the following information carefully and answer the questions that follow.

Raymer's Ltd. are a baked-bean manufacturer located on the outskirts of a town in the UK. The company was started 15 years ago by Ms Anneka Raymer. Ms Raymer and her family currently own all of the shares in the company.

Raymer's Ltd. employ over 90 staff. The firm's sales have grown each year, and their current market share is 14%. The directors have set new objectives for the business which include increasing the market share.

The directors of Raymer's Ltd. have produced a break-even chart for the business, as shown in **Figure 5**.

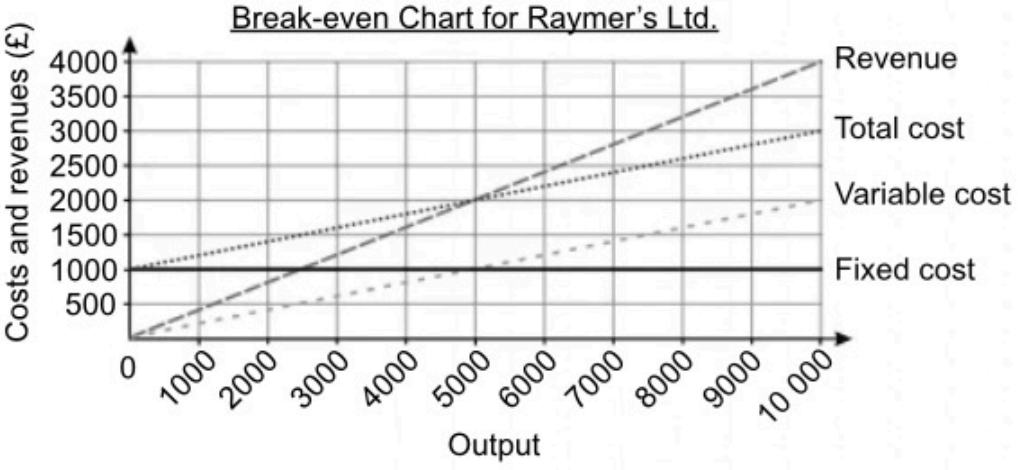

Figure 5

a) Define the term 'market share'.

....

[1 mark]

b) Identify the fixed costs for Raymer's Ltd.

....

[1 mark]

c) Raymer's Ltd. currently has an average output of 9000 units.
Use **Figure 5** to calculate Raymer's Ltd.'s current margin of safety.
Show your working.

margin of safety = ...

[2 marks]

Read the following information carefully and answer the question that follows.

> A pressure group is protesting about the use of pesticides by bean farmers, and has launched a campaign highlighting pesticide use and encouraging people to buy organic bean products. Raymer's Ltd. have access to a supplier who will supply organic beans, but for a higher price than the current supplier.

d) Raymer's Ltd. wants to maintain its current profit. It is considering two options:

Option 1: Launch a new range of higher priced organic baked beans alongside their current bean products.
Option 2: Reduce the price of their existing product range.

Justify which **one** of these options Raymer's Ltd. should choose.

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[9 marks]

Question 7 continues on the next page

Read the following information carefully and answer the question that follows.

> In recent months, Raymer's Ltd. has aimed to maximise its sales. To do this, it found several new customers including a supermarket chain, for which Raymer's Ltd. agreed to add the supermarket's own labels to the tins. To meet the demand, Raymer's Ltd. has steadily increased its output of its products by 30%.
>
> However, the percentage of products that were returned by customers increased. Common complaints included loose labels, dented tins, and tins that contained a lower weight of produce than was stated on the label. Raymer's Ltd. claims that tins were damaged by the transport company after they left the factory, and has refused to offer refunds to customers returning their products. This led to Raymer's Ltd. being taken to court for failing to follow consumer law.

e) Evaluate whether Raymer's Ltd. is likely to have benefitted from its efforts to maximise sales. Use the information provided, as well as your knowledge of business.

[12 marks]

[Total 25 marks]

[Total marks for Section C = 25 marks]

END OF QUESTIONS

CGP Practice Exam Paper GCSE Business

GCSE Business

Paper 2

In addition to this paper you should have:
- A calculator.

Centre name					
Centre number					
Candidate number					

Time allowed:
- 1 hour 45 minutes

Surname
Other names
Candidate signature

Instructions to candidates
- Use black ink or ball-point pen.
- Write your name and other details in the spaces provided above.
- Answer **all** questions in the spaces provided.
- Do all rough work on the paper.
- Cross out any work you do not want to be marked.

Information for candidates
- The marks available are given in brackets at the end of each question.
- There are 90 marks available for this paper.
- You are allowed to use a calculator.

Advice to candidates
- In calculations show clearly how you worked out your answers.

For examiner's use			
Q	Attempt N°		
	1	2	3
1			
2			
3			
4			
5			
6			
Total			

Section A
Answer all questions.

For multiple choice questions, put a cross (×) in the box alongside your answer.
If you wish to change your answer, put a line through your original answer.
For example: ~~☒~~. Then mark your new answer with a cross in the box.

1 a) Which of the following describes the term 'job production'?
Put a cross (×) in **one** correct box.

- **A** When a firm manufactures unique products one at a time. ☐
- **B** When a firm produces items in a way that keeps stock levels to a minimum. ☐
- **C** When a firm produces items in a way so that they have buffer stocks of items at every stage in the process. ☐
- **D** When a firm manufactures identical products on an assembly line. ☐

[1 mark]

b) Which of the following is a form of post-sales service?
Put a cross (×) in **one** correct box.

- **A** Training customers in how to use the product. ☐
- **B** Getting the contact details of potential customers. ☐
- **C** Providing customers with information about the product they're interested in. ☐
- **D** Calling customers to find out if they're interested in a product. ☐

[1 mark]

c) Explain **one** benefit to a business of having effective procurement and logistics.

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[3 marks]

Question 1 continues on the next page

Turn over ▷

d) Look at **Figure 1** below.

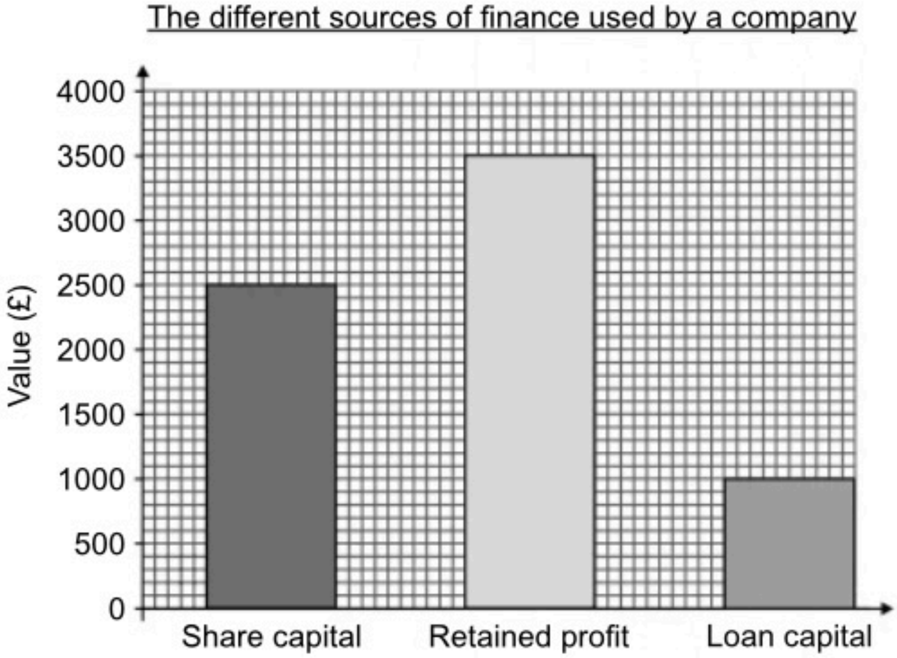

Figure 1

Calculate the percentage of the total amount of finance that is share capital.
Give your answer to 3 significant figures.
Show your working.

share capital = ...%
[2 marks]

[Total 7 marks]

2 a) Which of the following is a correct feature of a hierarchical business structure?
Put a cross (X) in **one** correct box.

A There is a short chain of command. ☐

B Communication is always fast and easy. ☐

C There are very few layers of management. ☐

D Each manager has a fairly narrow span of control. ☐

[1 mark]

b) Which **two** of the following are stages involved in quality control?
Put a cross (X) in **two** correct boxes.

A Employees aim to finish their part of the product as fast as possible. ☐

B The quality of raw materials is checked when they are received from suppliers. ☐

C The quality of a business' products are assessed by an external body. ☐

D The quality of a random sample of the finished product is checked. ☐

E The business looks to obtain materials at the cheapest possible price. ☐

[2 marks]

c) Calculate the gross profit margin for a company that has a sales revenue of £3 million and a gross profit of £690 000.
Show your working.

gross profit margin = ... %
[2 marks]

Question 2 continues on the next page

Turn over ▷

d) Some cupcakes are being sold at a food festival. The gross profit margin on each cupcake is 85%. The cupcakes cost £0.30 each to make. Calculate the price of **one** cupcake.

price = £ ....

[2 marks]

e) Explain why a business might choose to give its employees fringe benefits.

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[3 marks]

[Total 10 marks]

3 a) Which **one** of the following actions might a business take to improve its ethics?
Put a cross (X) in **one** correct box.

A Making sure factory workers work at least 10 hours per day. ☐

B Criticising competitor products in advertising material. ☐

C Buying the cheapest raw materials possible from farmers in developing countries. ☐

D Paying staff in low-income countries above the minimum wage. ☐

[1 mark]

b) Explain **one** way that a large business may benefit from economies of scale.

....

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[3 marks]

c) A business invests £200 000 in new IT equipment. The business forecasts the increase in profit as a result of the equipment in the five years following this investment. Their results are shown in **Figure 2** below.

	Year 1	Year 2	Year 3	Year 4	Year 5
additional profit (£000)	170	130	150	150	120

Figure 2

Use the information in **Figure 2** to calculate the average rate of return of the new IT equipment.
Show your working.

average rate of return = ...

[2 marks]

Question 3 continues on the next page

d) Explain **one** reason why a company will match the branding of a new product to the company's overall brand image.

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[3 marks]

e) "Price penetration" is a pricing strategy that involves charging a very low price for a product. Explain **one** reason why price penetration might be used as a pricing strategy for a new product in a competitive market.

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[3 marks]

f) Discuss the likely benefit to a business of training staff.

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[6 marks]

[Total 18 marks]

[Total marks for Section A = 35 marks]

Turn over for the next question

Section B
Answer all questions.

4 Read the following information carefully and answer the questions that follow.

Amazon is a successful online retailer that has seen huge growth since it was founded in the 1990s. Much of its success is due to the effects of globalisation and the growth of the internet, although company bosses regularly invest in new products, processes and technology to ensure the firm continues to grow.

Amazon bought out robotics company Kiva Systems for $775 million in 2012, and continues to invest in robotics systems for its warehouses. In 2022, it unveiled Sparrow, a new type of robot capable of recognising and handling individual packages that will make its warehouses more efficient. The firm also uses advanced computer systems to track each product as it is picked, packaged, labelled and delivered.

In 2019, Amazon bought an 18% stake in electric vehicle manufacturer Rivian. In the same year, Amazon ordered 100 000 electric vehicles from the company to use in the US, as part of its efforts to reach net zero carbon emissions by 2040. However, at the start of 2022, Rivian faced production delays and other issues that significantly reduced its share price. This, coupled with other challenges, negatively impacted Amazon's finances: at the end of 2022, Amazon recorded a net loss of $2.7 billion, compared to a net profit of $33.4 billion in 2021.

a) Define the term 'globalisation'.

....

....

[1 mark]

b) Outline **one** advantage to Amazon of selling products online.

....

....

[2 marks]

c) Calculate the percentage change in Amazon's net profit between 2021 and 2022.
Give your answer to the nearest whole number.

percentage change = ...

[2 marks]

d) Analyse the possible impact on Amazon of investing in new technology.

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[6 marks]

[Total 11 marks]

Turn over for the next question

5 Read the following information carefully and answer the questions that follow.

> Amazon operates globally with a decentralised structure. The firm has head offices in more than thirty countries around the world, as well as specialised customer service centres, and software development offices. Amazon also has many 'fulfilment centres'. These huge warehouses employ thousands of people in a range of departments, such as procurement and logistics, IT, quality assurance and warehouse operations.
>
> Amazon employs over 1.5 million people worldwide. Some of the job vacancies at Amazon are recruited internally. Amazon offers its employees competitive wages, health insurance and a discount code to use on their website. Amazon also allows many of its employees to work flexible hours.

a) Give **one** advantage and **one** disadvantage of Amazon using internal recruitment rather than external recruitment to fill some of their job vacancies.

Advantage: ....

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Disadvantage: ....

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[2 marks]

b) Outline **one** benefit to Amazon of allowing its employees to work flexible hours.

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[2 marks]

c) Analyse the impact on Amazon of having a decentralised structure.

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[6 marks]

Read the following information carefully and answer the question that follows.

In 2008, Amazon started a programme called Frustration-Free Packaging, to promote sustainable packaging. For a product to be certified as having Frustration-Free Packaging its packaging has to meet certain criteria, such as protecting the product, being fitted to the size of the product and not requiring any extra Amazon packaging. Other criteria are that it's recyclable and easy to open.

According to Amazon, the Frustration-Free Packaging programme has saved over 244 000 tons of packaging material. However, only some products across Amazon's range have been certified as having Frustration-Free Packaging. Therefore, in 2018 Amazon decided to take this further and required all products of a certain type (e.g. toys, consumer electronics, cleaning materials), which are also a large size or weight, to be in Frustration-Free Packaging by 1st August 2019. This is because larger products tend to have more packaging waste than smaller products.

In 2018, Amazon set up helpful tools to help sellers change their packaging to meet the Frustration-Free Packaging criteria, such as a website and support system. The website gives information on how sellers can develop Frustration-Free Packaging. The support system links the sellers to other companies that can help them design and test the packaging. Amazon also decided to give sellers credit on items that were certified before the August 2019 deadline, to help with costs involved.

Question 5 continues on the next page

d) Justify whether or not Amazon should go further and require all of its products to be in Frustration-Free Packaging.

[9 marks]

[Total 19 marks]

[Total marks for Section B = 30 marks]

Section C
Answer all questions.

6 Read the following information carefully and answer the questions that follow.

L'Oréal is a multinational cosmetics company. One of its growing markets is in India, where it began operations in 1994.

90% of the products sold in India are made in the country. In 2004, L'Oréal set up a factory in Pune, India, to manufacture products for sale in India. Many of the raw materials used to make products in the factory also come from India.

Since 2005, L'Oréal has been aiming to increase the sustainability of its business operations, for example by installing solar cells to heat water and recycling waste water at the factory. In 2015, the Pune factory was certified as reaching internationally recognised standards for efficient energy use.

a) Outline **one** impact L'Oréal may have had on other firms operating in India when it began trading in India.

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[2 marks]

b) Outline **one** benefit to L'Oréal of making its factory in Pune more sustainable.

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[2 marks]

Question 6 continues on the next page

Read the following information carefully and answer the question that follows.

> L'Oréal has over 40 factories around the world, including a factory in Indonesia.
>
> As well as growing its market share in India, L'Oréal wants to increase its market share in South Asian countries, including Malaysia and the Philippines.

Two options that L'Oréal could take to increase production for the South Asian market are:

Option 1: Expand the current factories and export products from India and Indonesia.

Option 2: Build a factory in each country it wants to sell in.

c) Justify which **one** of these two options L'Oréal should choose.

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[9 marks]

Question 6 continues on the next page

Read the following information carefully and answer the question that follows.

> Market research has shown that in less affluent areas of India, people are more likely to buy products in small sachets for a single use, which are cheaper than buying larger bottles. As a result, L'Oréal sells its shampoo in a larger range of sizes and prices in India than it does in other countries, including sachets. Although L'Oréal prices its shampoo cheaply, it is slightly more expensive than competitor products.
>
> L'Oréal distributes its products through a number of channels in India. Research has shown that the majority of sales in India are made through small, independent retailers. L'Oréal supplies its products through these stores as well as large chain stores and supermarkets. They are also targeting e-commerce at customers in more rural areas.

d) Evaluate whether L'Oréal is likely to benefit from its marketing strategy in India. You should use the information provided as well as your own knowledge of business.

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Question 6 continues on the next page

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[12 marks]

[Total 25 marks]

[Total marks for Section C = 25 marks]

END OF QUESTIONS

Note on Answers:

A lot of the time in Business, there isn't really a "right answer". Instead, it's about being able to explain yourself and justify your decisions.

Theme 1: Topic 1.1 — Enterprise and Entrepreneurship

Page 8

Exam Questions

1 B ***[1 mark]***

2 E.g. building a good brand image can add value to a product ***[1 mark]***. This is because customers will recognise the brand as being desirable/trustworthy ***[1 mark]***, so may be willing to spend more money on their products from that brand ***[1 mark]***.

3 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe the different responsibilities that an entrepreneur might need to fulfil, but with little discussion of the reasons why fulfilling these responsibilities is important for running a new business. ***[1 to 2 marks]***

Level 2: There is a description of a number of different responsibilities that an entrepreneur might need to fulfil, with some discussion of the reasons why fulfilling these responsibilities is important for running a new business. ***[3 to 4 marks]***

Level 3: There is a detailed description of the different responsibilities that an entrepreneur would need to fulfil, and a clear discussion of the reasons why fulfilling these responsibilities is important for running a new business. ***[5 to 6 marks]***

Here are some points your answer may include:

Entrepreneurs need to be willing to take risks. There are lots of unknowns involved in running a new business, such as investing money that might be lost if the business fails.

Even though an entrepreneur can write a business plan before they start, they can't know exactly what will happen, so they need to be able to take calculated risks.

Entrepreneurs need to make business decisions. There are lots of decisions to be made when running a new business, such as the business' aims, its structure, who to employ, and what to do if things go wrong.

Entrepreneurs need to be able to organise resources.

Entrepreneurs need to be able to organise the day-to-day running of the business, and should also be able to plan for the future.

You need to make sure you give a responsibility that an entrepreneur has, and then give reasons why fulfilling that responsibility is important for a new business.
E.g. 'An entrepreneur needs to be able to make business decisions, as there are lots of things that must be decided in a new business, such as the aims of the business and who to employ.'

Theme 1: Topic 1.2 — Spotting a Business Opportunity

Page 17

Case Study — Topics 1.1 and 1.2

1 E.g. Ankita will have less financial security as she will have to give up her current job. ***[1 mark]***

2 secondary research ***[1 mark]***

For the next question, think about what market research Ankita has done, and how it may help her when setting up her business.

3 E.g. Ankita has used market research to map the market. This may help her to spot a gap in the market ***[1 mark]***, and so allow her to develop clothing that is different to her competitors. This will help her to make as many sales as possible. ***[1 mark]***

4 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some attempt to describe the impact that the market research may have on Ankita's choice of target market, but with little explanation of why it may have this impact. ***[1 to 2 marks]***

Level 2: There is a good description of the impact that the market research will have on Ankita's choice of target market, with some explanation of why it may have this impact. ***[3 to 4 marks]***

Level 3: There is a detailed description of the impact that the market research will have on Ankita's choice of target market, and a clear explanation of why it may have this impact. ***[5 to 6 marks]***

Here are some points your answer may include:

Ankita may be interested in targeting commuters with her clothing, since 73% of respondents cycle only to commute.

In addition, the percentage of people who cycle to work has increased from 2.8% to 4% over the last four years, suggesting that there is a growing market for this type of clothing.

Ankita's market map shows there is a gap in the market for low performance, fashion-focused products, and her survey results reveal that commuters prioritise fashionable clothing.

If she decides to target fashion-conscious commuters, she will avoid any direct competition, allowing her to make more sales.

She is less likely to target people who cycle to race as only 20% of respondents attend cycling races and her market map shows that there are already a large number of firms selling the type of clothing they are interested in. She could conclude that this market is therefore much smaller than the commuter market and largely saturated.

Commuters spend significantly less on cycling clothes than those who attend races, so if Ankita decides to target commuters, she may make less profit per item. However, she will sell more items overall as demand will be higher.

'Outline' Question

Think about the things that can be done to add value to a product. Then state one way that Ankita plans to do this, and explain why it will add value to her cycling clothing.

E.g. Ankita is planning to develop a strong brand image for her business ***[1 mark]***, which will add value to the cycling clothing as customers will be more willing to spend money on clothing if they recognise the brand and know that it is well-designed and comfortable ***[1 mark]***.

Page 19

Exam Questions

1 B ***[1 mark]***

2 C ***[1 mark]***

3 a) E.g. Best Publications should ensure that the focus groups use people from the correct market segment / dog owners ***[1 mark]***, so that the information gathered is useful for the business ***[1 mark]***.

b) E.g. Best Publications may collect information on what potential customers enjoy from their social media accounts ***[1 mark]*** and use it to see what sorts of things are popular / increasing in popularity ***[1 mark]***.

c) observation ***[1 mark]***

Theme 1: Topic 1.3 — Putting a Business Idea into Practice

Page 25

Exam Questions

1 a) E.g. the sales targets were measurable steps ***[1 mark]*** that Ole could check to see if he was on track for achieving his aim of sales over £120 000 in the eighth year ***[1 mark]***.

b) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe the impact on Merino of Ole sticking to his aims, but with little or no analysis of the overall effect these will have on the business. ***[1 to 2 marks]***

Level 2: A number of impacts on Merino of Ole sticking to his aims have been described, with some analysis of the overall effect these will have on the business. ***[3 to 4 marks]***

Level 3: There is a detailed description of the impacts on Merino of Ole sticking to his aims, and a clear analysis of the overall effect of these on the business. ***[5 to 6 marks]***

Here are some points your answer may include:

Aim 1

In order to stick to his aim of making knitted garments using pure wool sourced from Scandinavia, Ole decided to decline the offer from the national department store to stock his products.

This meant the business lost out on sales revenue — a predicted £30 000. This may have meant that Merino grew more slowly and that Ole couldn't invest in growing the business.

Aim 2

However, in order to stick to his aim of making £120 000 per year by the eighth year, Ole started supplying his products to a local retailer in 2020, which led to more sales revenue, on top of the sales he was already making through the website. He also decided to launch a national advertising campaign, which made people more aware of his brand, and helped towards his aim by increasing sales.

This meant by 2023, Ole had already achieved his aim in a shorter amount of time and made greater sales than hoped for — £150 000. This means that Ole could afford to turn down the offer from the national department store and still stick to his aims.

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Exam Questions

1 a) £1000 ***[1 mark]***

b) Break-even output = 500 units ***[1 mark]***
Margin of safety = 800 – 500 = 300 units ***[1 mark]***

c) How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: There is some attempt to describe the impact that moving to the new supplier could have had on Fully Charged Ltd., but with little explanation of the advantages and disadvantages to the firm. ***[1 to 2 marks]***
Level 2: There is a good description of the impact that moving to the new supplier could have had on Fully Charged Ltd., with some explanation of the advantages and disadvantages to the firm. ***[3 to 4 marks]***
Level 3: There is a detailed description of the impact that moving to the new supplier could have had on Fully Charged Ltd., and a clear explanation of the advantages and disadvantages to the firm. ***[5 to 6 marks]***

Here are some points your answer may include:
An increase in variable costs of 25% per unit sold would have meant that variable costs would have increased from £2 per unit to £2.50 per unit — this is an increase of £0.50 per unit.
The change to the new supplier caused Ryan to increase the price of each charger, so revenue was £1 more for every unit sold.
The changes in costs and revenue would have meant that Fully Charged Ltd. earned £0.50 (£1 – £0.50) more for every unit sold. Therefore, overall profit per unit sold would have increased.
Figure 2 shows that Fully Charged Ltd.'s break-even output was 400 units in 2023, whereas Figure 1 shows that it was 500 units in 2020 when it was using the original supplier.
Therefore the new supplier would have meant that Fully Charged Ltd. would have to sell 100 fewer units before making a profit.
However, the increase in price of the chargers may have meant that fewer customers would be willing to buy them.
Therefore making these changes could have resulted in a loss of revenue and the business' profits may not have increased as a result.

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Case Study — Topic 1.3

1 She may end up losing her money if the business fails. ***[1 mark]***

2 E.g. Lizzie may have aimed to gain the independence of being her own boss ***[1 mark]*** so that she could fit her work commitments around her family life ***[1 mark]***.

3 E.g. Lizzie may have had an aim to achieve financial security for the business ***[1 mark]*** so that the business's activities could be paid for using its own revenue rather than relying on her personal savings or loans ***[1 mark]***.

4 Total interest as % of loan =
(total repayment – borrowed amount) ÷ borrowed amount × 100
= (£15 120 – £14 000) ÷ £14 000 × 100
= £1120 ÷ £14 000 × 100 = 0.08 × 100 = **8%**
[2 marks for correct answer, otherwise 1 mark for using the correct equation for calculating interest on loans]

5 a) 2000 units ***[1 mark]***

b) margin of safety = actual/budgeted sales – break-even sales
= 4000 units – 2000 units = **2000 units**
[2 marks for correct answer, otherwise 1 mark for using the correct equation for calculating the margin of safety]

'Calculate' Question

break-even output in units
= fixed cost ÷ (sales price – variable cost)
= £70 000 ÷ (£55 – £15) = £70 000 ÷ £40 = **1750 units**
[2 marks for correct answer, otherwise 1 mark for using the correct equation for calculating the break-even output in units]

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Exam Questions

1 a) Crowd funding is when a large number of people each contribute a small amount of money to a business ***[1 mark]***.

b) E.g. Nadia will not have made much profit to use to fund her second year ***[1 mark]*** due to high costs and low revenue/sales in her first year ***[1 mark]***.

2 How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: There is some attempt to describe the impact of the rise in demand for sunglasses on Yoo Too Sunglasses Ltd.'s cash flow, but with little explanation of how it may cause this impact. ***[1 to 2 marks]***
Level 2: There is a good description of how the rise in demand for sunglasses may impact Yoo Too Sunglasses Ltd.'s cash flow, with some explanation of how it may cause this impact. ***[3 to 4 marks]***
Level 3: There is a detailed description of how the rise in demand for sunglasses may impact Yoo Too Sunglasses Ltd.'s cash flow, and a clear explanation of how it may cause this impact. ***[5 to 6 marks]***

Here are some points your answer may include:
The increase in demand is likely to mean that it is advantageous for Yoo Too Sunglasses Ltd. to manufacture more sunglasses than they otherwise would have done in November.
The cash outflow for Yoo Too Sunglasses Ltd. in November might increase as the business spends more money on manufacturing more sunglasses.
This might mean that Yoo Too Sunglasses Ltd. will have to take out short-term finance to cover their costs during this period.
The cash inflow is likely to increase in the following January as the credit from customers who have bought sunglasses is paid off.
This may mean that Yoo Too Sunglasses Ltd. will find it easier to pay off their bills during this period.
As Yoo Too Sunglasses Ltd. will have extra cash in the business, they may choose to make investments into the business in January.
This might improve the business' cash flow in the future.

Theme 1: Topic 1.4 — Making the Business Effective

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Exam Questions

1 B ***[1 mark]***

A water bottling company will want to be somewhere close to its raw materials, since it will be expensive to transport large volumes of water. The other companies either provide services, or use materials from a number of different locations, so being close to the location of raw materials wouldn't benefit them that much.

2 a) A franchise is a business ownership structure where the owner pays a fee / a percentage of their profits to sell the products or use the trademark of another firm ***[1 mark]***.

b) How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: Some advantages and disadvantages of setting up as a franchise are given, but with little explanation of whether Isaac will benefit from becoming a franchisee. ***[1 to 4 marks]***
Level 2: A number of advantages and disadvantages of setting up as a franchise are described. There is some attempt to conclude whether Isaac would benefit overall from becoming a franchisee, but with little explanation to justify the conclusion. ***[5 to 8 marks]***
Level 3: There is a detailed and thorough analysis of the advantages and disadvantages of setting up as a franchise. A conclusion has been made as to whether Isaac will benefit from becoming a franchisee, which has been fully justified using evidence. ***[9 to 12 marks]***

Here are some points your answer may include:
Franchises often have rules about how the business must operate.
Isaac's business is already a dog sitting business, but he's unsure about caring for other pets.
Petpals franchises offer services to look after other animals as well, so becoming a franchisee may mean Isaac will have to offer services he doesn't want to.
However, Petpals provides training to franchisees, so Isaac may be more confident looking after animals that aren't dogs once he has been given this training.

Franchisees often have to pay money to the franchisor to set up the franchise.
Petpals requires an initial investment of approximately £20 000. It's possible they might also want a share of the profits that Isaac makes in later years. If Isaac invested this money into his current dog sitting business instead, he might end up making more money in the long term.
Customers may already recognise a franchisor's brand name.
Petpals is an established, well-regarded company.
Customers may be more willing to trust Isaac if he operates under the Petpals name rather than as his own business. Since customers are likely to care a lot about the treatment their pets get, operating under a trusted brand name could greatly improve Isaac's sales, so his business could grow more quickly than if he continued with his existing pet sitting business.
Petpals would provide Isaac with support, such as training, writing a business plan and helping to set up a marketing campaign. Isaac already has experience with marketing, but might require assistance with the other aspects of his business, so this support could help to make his business more successful than it would be if he continued to operate as his own business.

You need to finish your answer with a conclusion about whether Isaac will benefit from setting up a franchise — make sure you've looked thoroughly at all the information given. E.g. 'Overall, Isaac will benefit from setting up as a franchise of Petpals. Even though he may have to give some of his profits to Petpals, the advantages of operating under the name of an established, trusted company and having support in running his business are likely to mean the business is more successful than it would be if he continued to operate as his own business.'

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Case Study — Topic 1.4

1 An outline of what a business will do and how it aims to do it. ***[1 mark]***

2 E.g. Sophie's business is new and so will have limited financial resources ***[1 mark]*** — flyers are a much cheaper way to promote her business than a TV advert ***[1 mark]***.

3 How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: There is some attempt to describe the benefits and drawbacks to Sophie of being a sole trader, but with little explanation of the advantages and disadvantages. ***[1 to 2 marks]***
Level 2: There is a good description of the benefits and drawbacks to Sophie of being a sole trader, with some explanation of the advantages and disadvantages. ***[3 to 4 marks]***
Level 3: There is a detailed description of the benefits and drawbacks to Sophie of being a sole trader, and a clear explanation of the overall effect of the advantages and disadvantages. ***[5 to 6 marks]***

Here are some points your answer may include:
Setting up as a sole trader is easy to do, reducing the amount of work for Sophie and allowing her to begin trading quickly.
As a sole trader, Sophie is her own boss — this means she can set the business's aims and objectives, work when she chooses, and decide what to do with any profits.
However, as a sole trader, the business owner isn't legally separate from their business. This makes it a riskier option for Sophie — she will be personally liable for paying back any debts such as the loan, putting her personal finances at risk if the business fails. Similarly, if anyone sues the business, they will be suing Sophie personally.
Sophie may also find it difficult to get the loan she requires as a sole trader, as sole traders are seen by banks as risky. She may therefore struggle to get finance, or have to rely on her personal savings.

'Justify' Question

How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: Some attempt has been made to recommend which option Sophie should choose, but with little justification. ***[1 to 3 marks]***
Level 2: There is a good description of the advantages and disadvantages of at least one location, along with a recommendation of which she should choose. There is some reasoning to the recommendation, but it is lacking in detail or not fully justified. ***[4 to 6 marks]***
Level 3: There is a detailed explanation of the advantages and disadvantages of at least one location, with a well-reasoned and fully justified recommendation of which Sophie should choose. ***[7 to 9 marks]***

Here are some points your answer may include:
Option 1
Market Street is more expensive than Sutcliff Park, so Sophie might need to take out a bigger loan to cover the initial rent payments. This means she will need to sell more products than she would at Sutcliff Park, in order to cover the higher cost of the loan and break even.
The Market Street location is in a busy area, so the number of customers is likely to be greater than at Sutcliff Park. A larger market means that the café should sell more, which may help cover the extra rental cost.
There is some competition on the street from other cafés, so Sophie may need to price her products competitively and reduce the amount of profit she makes. She may also have to spend more on advertising to stand out from the other cafés and attract customers. When coupled with the higher rent, this may make it harder for the business to make a profit, or even survive.
However, none of the cafés sell ice cream, so Sophie will still have a unique selling point.
Option 2
Sutcliff Park is popular with families which may be beneficial — families are more likely to buy ice cream than other demographics.
There is no permanent competition at the park, but during the summer an ice cream van will be in direct competition with the café. The summer is likely to be the busiest period for the café, as that's when demand for ice cream is highest, so it could have a significant negative impact on Sophie's sales.
Trade in the park is likely to be highly seasonal — there will be far fewer visitors in the winter, which may negatively affect Sophie's cash flow and mean she is unable to cover her costs in the winter months.

You need to finish your answer with a conclusion about which location Sophie should choose — make sure you've looked thoroughly at all the information given. E.g. 'Although it is more expensive, Sophie should choose the Market Street location as this will have the largest market and there is less competition for ice cream. This means she is likely to make more sales than she would at the park.'

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Exam Questions

1 C ***[1 mark]***
E ***[1 mark]***

2 a) Selling products through the internet ***[1 mark]***.
b) Ngozi has prioritised product ***[1 mark]*** since Sportis Ltd. sells stylish/high quality products ***[1 mark]***. / Ngozi has prioritised place ***[1 mark]***, since Sportis Ltd. sells its products in places that are convenient to her customers ***[1 mark]***.

You get one mark for picking out one part of the marketing mix which has been prioritised. Then the second mark is for describing how it has been prioritised.

c) E.g. by regularly assessing customer needs, Ngozi will know when the needs of the customers change ***[1 mark]***, and therefore will be able to adapt her marketing mix to meet these new needs ***[1 mark]***.

3 E.g. small businesses can't benefit from economies of scale like large businesses can ***[1 mark]***, because they can't buy raw materials in large enough quantities / they may not have the equipment to make their processes as efficient as possible ***[1 mark]***, so they will have to sell their products at higher prices in order to make enough profit ***[1 mark]***.

Theme 1: Topic 1.5 — Understanding External Influences on Business

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Exam Questions

1 a) E.g. customers will want lower prices ***[1 mark]***, and Heyshore Sports Ltd. have satisfied this objective by lowering their membership fees by 3% ***[1 mark]***.
b) E.g. one way the government raises money is by taxing the profits that businesses make ***[1 mark]*** and Heyshore Sports Ltd.'s business activities have resulted in a 20% increase in profits over the last five years ***[1 mark]***.

To answer this question, you need to consider how the government could benefit from the business' current activities.

c) E.g. the owners will want the business to make as much profit as possible ***[1 mark]*** and increasing staff wages will increase Heyshore Sports Ltd.'s costs, meaning they may make less profit ***[1 mark]***.

d) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some attempt has been made to recommend which option Heyshore Sports Ltd. should choose, but with little justification for why this is the better option. ***[1 to 3 marks]***

Level 2: Some of the advantages and disadvantages to stakeholders of at least one option have been given, along with a recommendation of which option Heyshore Sports Ltd. should choose. There is some reasoning to the recommendation, but it is lacking in detail or not fully justified. ***[4 to 6 marks]***

Level 3: There is a detailed explanation of the advantages and disadvantages to stakeholders of at least one option, with a well-reasoned and fully justified recommendation of what Heyshore Sports Ltd. should do. ***[7 to 9 marks]***

Here are some points your answer may include:

Option 1

The site is directly behind the sports centre, meaning it will be easy for the sports centre's customers to get to. This may increase customer satisfaction and help to attract new customers. Having all the facilities on one site may also make life easier for the employees and managers, so they will be happy.

The building work at the site is expected to be cheaper than the second option. Lower costs may mean that the expansion is more profitable. The potential to be more profitable is likely to please the business owners, as it may mean they get higher dividends. It is also likely to please employees and managers as it offers them greater job security and may lead to further pay rises for them.

However, Option 1 uses land which is currently a popular picnic spot. The local community may be unhappy with Heyshore Sports Ltd. if they use the land for sports facilities. Also, the local environmental group will be unhappy with Heyshore Sports Ltd. because using the meadowland would probably have a negative impact on the wildlife in the area. The environmental group may persuade other members of the community that Heyshore Sports Ltd. has made a bad decision, which may result in a loss of custom and revenue for the firm, which could lead to lower profits.

Option 2

The site is currently occupied by a derelict factory. Clearing the old factory and using the land for sports facilities might please the local community as it will be more visually appealing.

Using this site might also please the local environmental group as it's unlikely to cause as much harm to the wildlife in the area as using the area of meadowland would.

The site is twice the size of the first option, meaning it may be able to have more facilities and attract more customers. This could increase the revenue it generates, which may lead to higher profits. Higher profits are likely to lead to higher dividends for the owners, and greater job security and possible pay rises for employees and managers.

However, building work at the site is likely to be more expensive than on the meadowland. Heyshore Sports Ltd. may need to increase its membership fees to cover these greater costs, meaning customers may be unhappy. It may also need to use more profit to fund the expansion, meaning the owners will be unhappy as they may receive lower dividends.

The new facilities would be further away from the current sports centre than if Heyshore Sports Ltd. used the meadowland. This may mean that customers would be less willing to use the new facilities, and so Heyshore Sports Ltd. may not see a big increase in revenue as a result of the new facilities.

You need to finish your answer with a conclusion recommending which option you think would be better — make sure you've looked thoroughly at all the information given. E.g. 'Heyshore Sports Ltd. should build their new sports facilities on the meadowland behind the sports centre. Having all the sports facilities near to each other is likely to be more convenient for customers, which may increase customer satisfaction and may help to attract new customers when the new facilities are built, both of which could lead to increased profit for the business. Increased profits would please lots of Heyshore Sports Ltd.'s stakeholders, including the business owners, employees and managers.'

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Exam Questions

1 a) E.g. if the bag's handles or fastenings are not intact then it's not of satisfactory quality to meet consumer law ***[1 mark]***. / If the bag is not made from real leather then it's a false trade description and so doesn't meet consumer law ***[1 mark]***.

b) E.g. money back / a repair / a replacement ***[1 mark]***

c) E.g. he shouldn't sell any bags that are faulty ***[1 mark]***. / For any bags that are not made from real leather he should label them with the correct material that they are made from ***[1 mark]***.

2 E.g. high unemployment may mean that people may be willing to work for the business for lower wages ***[1 mark]***. This would reduce the business' costs ***[1 mark]***, meaning that it could make more profit ***[1 mark]***. / High unemployment may mean that a business can easily recruit people as there are lots of people available for work ***[1 mark]***. This could reduce the business' recruitment costs ***[1 mark]***, meaning that it could make more profit ***[1 mark]***. / During times of high unemployment, the government may give grants to businesses who can provide jobs ***[1 mark]***. The business could use the money from the grant to cover some of its start-up costs ***[1 mark]***, meaning it could make more profit ***[1 mark]***.

Don't forget that you have to explain an advantage for a business that is just starting up — don't explain anything that would only apply to a more established business.

3 E.g. by having a minimum wage, staff are more likely to be motivated ***[1 mark]*** and therefore may be more productive for a business ***[1 mark]***. This means that the company may have to employ fewer people to do the same amount of work, cutting costs overall ***[1 mark]***.

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Case Study — Topic 1.5

1 E.g. They must not discriminate against anyone because of their religion/gender/race/age/sexual orientation/because of disabilities. ***[1 mark]***

2 E.g. Having a website would have meant that Frame the Wall Ltd. could reach a wider market ***[1 mark]***, so they would have gained sales from new customers outside of their local area ***[1 mark]***.

3 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe an impact of the firm's decision on one of Frame the Wall Ltd.'s stakeholders, but with little discussion of the reasons why this is the case. ***[1 to 2 marks]***

Level 2: There is a description of a number of impacts on the firm's stakeholders, with some discussion of the reasons why this is the case. ***[3 to 4 marks]***

Level 3: There is a detailed description of the impacts of the firm's decision on its stakeholders, and a clear discussion of the reasons why this is the case. ***[5 to 6 marks]***

Here are some points your answer may include:

Frame the Wall Ltd.'s stakeholders are likely to include its employees, shareholders and customers.

The employees are likely to benefit from reinvesting a large percentage of the profit, because if the company grows successfully they are likely to have more job security, higher pay and more chance of a promotion.

The firm's shareholders are likely to receive smaller dividends in the short-term, and so may disagree with the firm's decision. However, if the business grows successfully, they may get larger dividends in the long term.

Investing in growing the business may mean it can offer a wider range of products and services, which will benefit its customers.

'Evaluate' Question

How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe the positives and negatives of the firm's plan, given the economic predictions, but with little explanation of whether Frame the Wall Ltd. would have benefitted overall. ***[1 to 4 marks]***

Level 2: There is a detailed description of the positives and negatives of the firm's plan, given the economic predictions. There is some attempt to conclude whether Frame the Wall Ltd. would benefit overall, but with little or no explanation to justify the conclusion. ***[5 to 8 marks]***

Level 3: There is a detailed and thorough analysis of the positives and negatives of the firm's plan, given the economic predictions. A conclusion has been made as to whether Frame the Wall Ltd. would benefit overall, which has been fully justified using evidence from the table. ***[9 to 12 marks]***

Here are some points your answer may include:

Inflation was expected to fall from its high level. This would be beneficial for the firm as it suggests that their costs would not rise as much in the following years. This means that Frame the Wall Ltd. would have made more profit on their sales than they would have done if inflation had not fallen. Therefore, they would have more money to reinvest.

Consumer incomes were expected to rise above the rate of inflation. This may have been beneficial to Frame the Wall Ltd. as people would have had more disposable income to spend on luxuries like photos, which may have led to an increase in demand for their products. Expecting demand for their products to grow may have given Frame the Wall Ltd. more confidence that they could survive if they invested in growing the business.

Interest rates were expected to rise from their current level. This could have meant that the firm had less money available for investment as it would have to pay back more on any money it had borrowed. Also, consumers may have had less money available to spend as they would also need to pay back more on money they had borrowed, meaning that demand for their products may have fallen. However, interest rates were only expected to rise slightly so Frame the Wall Ltd. may not have been too worried about these impacts.

You need to finish your answer with a conclusion making a judgement about whether the predicted economic conditions would have been beneficial for Frame the Wall Ltd's ability to grow — make sure you've looked thoroughly at all the information given. E.g. 'Planning to grow the business was a good decision for Frame the Wall Ltd, as most economic conditions (e.g. inflation and consumer income) were expected to improve and so the company could be confident that growth was achievable. However, whether their plan was ultimately successful depended on how accurate the economic predictions turned out to be.'

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Exam Questions

1 B ***[1 mark]***

When you answer this question make sure you focus on who benefits from a high interest rate — it means that payments will be higher. So for people paying back loans or mortgages it's bad news, but for those who are being paid it's good news.

2 a) E.g. a fall in income tax will mean that people have more disposable income ***[1 mark]***, which means Country Rides' revenue is likely to increase ***[1 mark]***.

b) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe the impact that a rise in taxation would have on Country Rides, but with little explanation of how this could be an advantage and a disadvantage to the firm. ***[1 to 2 marks]***

Level 2: There is a good description of how the rise in taxation would impact Country Rides, with some explanation of how this could be an advantage and a disadvantage to the firm. ***[3 to 4 marks]***

Level 3: There is a detailed description of how the rise in taxation would impact Country Rides, and a clear explanation of how this could be an advantage and a disadvantage to the firm. ***[5 to 6 marks]***

Here are some points your answer may include:

If Country Rides has to pay more in tax it will reduce the amount of money it has available to reinvest.

This may mean it cannot afford to buy as much land and as many horses as it would like. This means it would not be able to grow as quickly as it otherwise would and may not be as profitable.

However, a rise in the taxes that small businesses have to pay may deter other people from setting up businesses to compete with Country Rides. This would be an advantage to Country Rides, as it reduces the risk that it will lose revenue to competitors.

Theme 2: Topic 2.1 — Growing the Business

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Exam Questions

1 C ***[1 mark]***

Remember, a merger is a mutual decision for two (or more) businesses to combine into a bigger business. If a business buys more than 50% of another firm's shares, this is a takeover.

2 E.g. internal growth is slow ***[1 mark]*** as the business grows by expanding its own activities ***[1 mark]***, so it may take a long time for profits and sales to increase ***[1 mark]***.

3 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe how becoming a public limited company will impact Xu's Letters Ltd., but with little explanation of the advantages and disadvantages to the firm. ***[1 to 2 marks]***

Level 2: There is a good description of how becoming a public limited company will impact Xu's Letters Ltd., with some explanation of the advantages and disadvantages to the firm. ***[3 to 4 marks]***

Level 3: There is a detailed description of how becoming a public limited company will impact Xu's Letters Ltd., and a clear explanation of the advantages and disadvantages to the firm. ***[5 to 6 marks]***

Here are some points your answer may include:

Converting the company to a public limited company (PLC) means that the company will be able to raise much more capital through selling shares on the stock exchange.

This could help to fund the growth that the shareholders are planning. Growth may mean that the company makes more profit.

Converting to a PLC would make it possible for somebody to buy enough shares to take over the company, meaning the Xu family could end up losing overall control.

If the management were to change, the aims and objectives of the business might also change.

Converting to a PLC would mean Xu's Letters Ltd. had to publish its accounts each year. This could show competitors if the business is struggling, and so could affect their competitive advantage.

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Case Study — Topic 2.1

1 Working in ways that won't damage the planet for future generations. ***[1 mark]***

2 E.g. The company will be able to buy products from suppliers in bulk and so get them for a lower price than smaller competitors. ***[1 mark]***

3 E.g. Partnering with Just Eat makes it easier for customers to buy Co-op products as they can do so without having to visit a store ***[1 mark]***. This is likely to lead to an increase in sales as many customers value convenience ***[1 mark]***.

4 E.g. As Nisa was a competitor ***[1 mark]***, buying it would have allowed The Co-op to increase its market share much more rapidly than if it had relied on internal growth ***[1 mark]***.

'Analyse' Question

How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some attempt to describe the impact on The Co-op of its ethical and sustainability practices, but with little explanation of the overall effect this will have on the business. ***[1 to 2 marks]***

Level 2: There is a good description of a number of impacts on The Co-op of its ethical and sustainability practices, with some explanation of the overall effect these impacts will have on the business. ***[3 to 4 marks]***

Level 3: There is a detailed description of the impacts on The Co-op of its ethical and sustainability practices, and a clear explanation of the overall effect of these impacts on the business. ***[5 to 6 marks]***

Here are some points your answer may include:

Acting ethically may mean the firm has to increase its prices, for example to cover the cost of auditing its suppliers or to pay farmers more fairly. This may turn some budget-conscious shoppers away, leading to a loss in revenue.

However, it may also attract shoppers who prioritise ethical issues, leading to an increase in sales and offsetting the loss in sales due to potentially higher prices.

Shoppers may also be attracted to The Co-op if they can see firsthand the positive social impact the firm is having in their local area, for example through its partnership with Your Local Pantry.

As consumers are becoming increasingly environmentally-aware, The Co-op's moves towards environmental sustainability may attract customers, leading to increased sales.

However, funding sustainable initiatives such as the peatland restoration scheme will incur significant costs, potentially leading to higher prices in store.

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Exam Questions

1 a) A group of countries with very few or no trade barriers between them ***[1 mark]***.

b) E.g. the factory workers in Spain will be paid less per month than the factory workers in the UK ***[1 mark]***, so Squishie's average unit costs will be lower/Squishie's wage bill will be less than if they built the new factory in the UK ***[1 mark]***.

2 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to state the effects of using Fairtrade products on the financial success of Beancraft Ltd., but there is little or no explanation of the causes of these effects. ***[1 to 2 marks]***

Level 2: There is a basic analysis of how using Fairtrade products might affect the financial success of Beancraft Ltd., but the explanations are lacking in detail, or points have been missed. ***[3 to 4 marks]***

Level 3: There is a thorough analysis of how using Fairtrade products might affect the financial success of Beancraft Ltd., with detailed explanations of the causes of these effects. ***[5 to 6 marks]***

Here are some points your answer may include:

Workers on coffee bean plantations that are Fairtrade certified will get a fair wage, which will allow them to afford a better quality of life. However, buying only from Fairtrade certified plantations may mean that Beancraft Ltd. will have to pay more for coffee beans than its competitors.

This could mean that the prices of its coffee products are higher than those of its competitors. This may mean that consumers choose its competitors' coffee instead of Beancraft Ltd.'s, leading to a loss in revenue.

Beancraft Ltd. will also have a smaller selection of plantations to buy from than its competitors, since a smaller number of plantations are Fairtrade certified than those that are not. This may mean that it won't be able to offer varieties of coffee that its competitors offer, which may mean that customers won't choose its products and it will have a loss in revenue.

However, Beancraft Ltd. may be able to include details of its use of Fairtrade sources of coffee beans in its marketing, in order to emphasise the company's ethical principles. Most of its competitors do not use Fairtrade sources of coffee beans, so emphasising the use of Fairtrade sources in Beancraft Ltd.'s marketing could help it to stand out from its competition. This may mean that customers who want to buy ethical products will choose Beancraft Ltd.'s coffee over its competitors'. This will lead to an increase in revenue for Beancraft Ltd.

Theme 2: Topic 2.2 — Making Marketing Decisions

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Exam Questions

1 B ***[1 mark]***

2 a) E.g. SwimTech may use displays (e.g. posters) in the shops that sell the watch ***[1 mark]***, as customers in the shops will see them and may be persuaded to buy a watch ***[1 mark]***.

The method of distribution is how the product gets to customers — in this case, through high street retailers. You should give one way in which the product may be promoted in a high street shop for one mark, and a description of why this method may be used for a second mark.

b) E.g. differentiating the product will mean that the customers may choose this product over competitors' products ***[1 mark]***, which will increase sales for SwimTech ***[1 mark]***.

3 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some of the advantages and disadvantages of the extension strategies Nestlé® have used have been given, but with little explanation of whether the extension strategies are likely to have been beneficial for Nestlé®. ***[1 to 4 marks]***

Level 2: There is a detailed description of the advantages and disadvantages of Nestlé® using extension strategies. There is some attempt to conclude whether the extension strategies are likely to have been beneficial for Nestlé®, but with little or no explanation to justify the conclusion. ***[5 to 8 marks]***

Level 3: There is a detailed and thorough analysis of the advantages and disadvantages of the extension strategies Nestlé® have used. A conclusion has been made as to whether the extension strategies are likely to have been beneficial for Nestlé®, which has been fully justified using evidence. ***[9 to 12 marks]***

Here are some points your answer may include:

A company can extend the life of a product by adding more features. A company can also extend the life of a product by targeting a different market.

Nestlé® originally extended the life of its KitKat® range by developing new products in the range, such as the KitKat® Chunky and new flavours of KitKat®. These new products may have appealed to a different target market interested in different forms of chocolate bar, so would have increased demand for KitKat®. Although Nestlé® would have increased their costs by developing the new products, they will have benefited from the increased sales revenue, and from maintaining KitKat® as one of the most popular brands in the UK.

However, the extension strategy was not enough to ensure KitKat®'s continued success, as in 2014 KitKat® sales and market share decreased.

Nestlé® could have used the money spent on the extension strategy to develop and launch a completely new product. However, it would have taken a long time to establish a new product to have a market share similar to KitKat®'s. The increase in revenue from KitKat® before 2014 is likely to have been greater than the revenue that would have been generated from a completely new product in the same time.

A company can extend the life of a product by updating packaging. In 2015, Nestlé® changed the packaging of KitKat®. This is likely to have made KitKat®s more eye-catching to consumers. They also added a feature to the packaging that included a link to an online video. This may have meant customers were more interested in buying the chocolate in order to watch the video. Both of these strategies may have increased demand for the KitKat®. The extension strategies were expensive, costing £10m. This would have increased Nestlé®'s costs. However, the campaign should have increased the revenue of KitKat® by increasing demand, which should have covered these costs.

This may have meant that Nestlé® will have reduced costs overall, as instead of spending money developing and promoting a new product, it has been able to extend the life of one of its current products.

You need to finish your answer with a conclusion about whether or not the extension strategies would have benefited Nestlé® overall — make sure you've looked thoroughly at all the information given. E.g. 'As KitKat® is one of the most popular chocolate bars in the UK, it is likely to be an important source of revenue for Nestlé®. Despite the costs associated with the extension strategies, the increase in revenue they cause should be enough to cover these costs. So using extension strategies should ultimately have increased profits and so benefited Nestlé®.'

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Case Study — Topic 2.2

1 E.g. Pret introduced a subscription service ***[1 mark]***. This can save customers money if they regularly buy coffee, and is the first of its kind amongst its competitors ***[1 mark]***.

2 The cost of the firm's supplies (e.g. coffee) increased due to the high rate of inflation. / The firm's staffing costs increased due to its decision to raise wages. / The firm was experiencing reduced sales due to the after-effects of the Covid-19 pandemic ***[1 mark]***. This led to the company increasing the price of its subscription service to cover its costs / increase its sales revenue ***[1 mark]***.

3 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe possible pricing strategies, but with little discussion of the reasons why they have been chosen or their effects. ***[1 to 2 marks]***

Level 2: There is a good description of possible pricing strategies, with some discussion of the reasons why they have been chosen or their effects. ***[3 to 4 marks]***

Level 3: There is a detailed description of possible pricing strategies, and a clear discussion of the reasons why they have been chosen and their effects. ***[5 to 6 marks]***

Here are some points your answer may include:

There is a high level of competition in the coffee and sandwich chain market. As many of the most popular products will be very similar (e.g. coffee), firms such as Pret may have to charge a similar price to other firms using competitive pricing. However, they may be able to charge a higher price if their products are of a higher quality or more ethical.

For some products, firms may want to charge a price below their cost in order to attract new customers and compete successfully. However, using loss leader pricing in this way will mean the firm will have to make more profit on other products to cover the loss, potentially leading to higher prices elsewhere.

Pret used a price penetration strategy for its original subscription service by offering the first month free. This would have led some customers who may not have otherwise tried the service to actually do so, although the company wouldn't have made any profit unless these customers started to pay in the second month.

'Evaluate' Question

How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some effects of Pret's decision to rebrand and raise prices are described, but with little explanation of the overall impact on Pret. ***[1 to 4 marks]***

Level 2: There is a good description of the impact of Pret's decision to rebrand and raise prices. There is some attempt to evaluate the overall impact on Pret, but with little or no explanation to justify the conclusion. ***[5 to 8 marks]***

Level 3: There is a detailed and thorough analysis of the impact of Pret's decision to rebrand and raise prices. A conclusion has been made as to the overall impact on Pret, which has been fully justified using evidence from the source. ***[9 to 12 marks]***

Here are some points your answer may include:

If enough people subscribed to Pret a Manger's new service, the higher price would have increased the company's revenue. A rise in revenue was necessary, as the business was facing increased costs such as wage increases and the rising prices of ingredients such as coffee. Increasing the price of the service may have allowed the firm to cover these costs while also continuing to make a profit.

By increasing the price to £30, the firm may have lost some subscribers if they decided that the service was no longer worth the cost, particularly if they only used it infrequently or originally signed up for the smoothies that are no longer included. Depending on the exact number of cancellations though, the increase in price could have still provided sufficient additional income from continuing and new subscriptions to cover the revenue lost from cancelled subscriptions, and so the price rise may still have been an advantage to the firm.

In rebranding the subscription service as 'Club Pret', the company established a recognisable brand that could be used in the company's marketing materials. This may have increased the number of subscribers — and therefore revenue — by raising awareness of the service amongst the wider public.

The rebranded service entitled subscribers to 10% off any food purchases. Whilst this would have resulted in the company taking 10% less income for any products bought under the deal, it may actually have led to an increase in food sales. Subscribers are likely to have started buying more than they would have done previously due to the lower cost. This may have resulted in an overall increase in revenue.

The 10% discount is also likely to have provided an extra incentive to customers to continue subscribing following the price increases, and may even have attracted new subscribers, again leading to an increase in revenue.

You need to finish your answer with a conclusion that evaluates the overall impact of rebranding and increasing prices on Pret a Manger — make sure you've looked thoroughly at all the information given. E.g. 'Rebranding and increasing the price of the subscription service is likely to have had a positive impact on Pret a Manger, as it should have enabled the company to raise its revenue sufficiently, covering its increased costs while maintaining its profit margin. However, this would depend on the number of new subscribers offsetting any loss from people cancelling due to the higher price. This may prove difficult to achieve, considering high inflation will mean people will be less likely to spend money on a drinks subscription, and the market for people needing drinks and lunch on the go is smaller due to more people working from home.'

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Exam Questions

1 a) Sponsorship means that the business will give money towards the event ***[1 mark]*** and in exchange the name of the business is displayed at the event ***[1 mark]***.

b) E.g. by sponsoring the marathon, Mamo Ltd. will be more likely to be promoted to its target market than sponsoring another kind of event ***[1 mark]***, since individuals at the marathon are likely to be interested in sports ***[1 mark]***.

2 a) Amount added to price = 4.40 × 0.7 = 3.08

Price = 4.40 + 3.08 = **£7.48**

[2 marks for correct answer, otherwise 1 mark for using the correct calculation.]

b) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some attempt is made to recommend what pricing strategy ElectricPages Ltd. should use, but with little justification for why this should be done. ***[1 to 3 marks]***

Level 2: Some of the advantages and disadvantages of at least one strategy have been given, along with a recommendation for which one ElectricPages Ltd. should use. There is some reasoning to the recommendation, but it is lacking in detail or not fully justified. ***[4 to 6 marks]***

Level 3: There is a thorough description of the advantages and disadvantages of at least one strategy, with a well-reasoned and fully justified recommendation of which strategy ElectricPages Ltd. should use. ***[7 to 9 marks]***

Here are some points your answer may include:

Setting the price below cost:

This strategy would generate a loss per product sold.

Therefore this strategy would be very costly for ElectricPages Ltd. This strategy may be risky, as if their sales of other products aren't high enough, they may not be able to cover the cost of selling the EezyReadr at a loss.

However using this strategy may mean that the e-reader will be cheaper than other e-readers on the market, which will encourage people to buy it. This will help to establish a market share.

The fact that e-books from other companies are not compatible with the device may mean that fewer customers would be willing to buy the device, so charging a low cost may help to persuade customers that it is worth buying.

E-books are much cheaper to make than e-readers and the company keeps a large percentage of the sales of e-books as profit.

By pricing the e-reader below the cost of making it, the company will encourage customers to buy their e-books, since only e-books bought from ElectricPages Ltd.'s website are compatible with the device. Therefore, even though they will make a loss on the EezyReadr using this strategy, they could still earn profit through sales of e-books from their website.

Charging a high price when it is released:

This would be beneficial for ElectricPages Ltd. since they would be able to cover the costs of the research and development of the EezyReadr and may make a profit.

Charging a high price at first may be suitable for the EezyReadr because it may have a high demand when it is first introduced due to its new technological features. However, a high price may mean that the product will not appeal to the mass market and so this will reduce sales of the product.

Although it has new features, it is not the first e-reader on the market, so it might not benefit very much from this strategy as there might not be enough demand for the EezyReadr.

Charging a high price for the EezyReadr may give it a good image and may make it more appealing to people with high incomes. This may help to improve ElectricPages Ltd.'s image and status.

You need to finish your answer with a conclusion recommending what you think ElectricPages Ltd. should do — make sure you've looked thoroughly at all the information given. E.g. 'ElectricPages Ltd. should set the price of the Eezyreadr below the cost of making it. Although they will not earn a profit when an e-reader is sold, they are likely to attract more customers and make more profit through sales of e-books and other products.'

Theme 2: Topic 2.3 — Making Operational Decisions

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Exam Questions

1 E.g. batch production is faster than job production ***[1 mark]***, since it involves making batches of identical products at the same time ***[1 mark]***, so the firm will be more productive ***[1 mark]***.

2 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe how using just-in-time (JIT) will impact The Reading Shelf, but with little explanation of the advantages and disadvantages to the firm. ***[1 to 2 marks]***

Level 2: There is a good description of how using JIT will impact The Reading Shelf, with some explanation of the advantages and disadvantages to the firm. ***[3 to 4 marks]***

Level 3: There is a detailed description of how using JIT will impact The Reading Shelf, and a clear explanation of the advantages and disadvantages to the firm. ***[5 to 6 marks]***

Here are some points your answer may include:

Switching to JIT means The Reading Shelf will no longer order books in bulk, and will only order the stock they need. It is therefore less likely to make orders over 2000 units and so will not benefit from the discount offered by the supplier on these large orders. Therefore, the costs of their supplies could increase.

However, it means The Reading Shelf won't have as much waste from discarding books that are no longer selling. This could mean their costs go down as they are only spending money on books they know they should sell.

Using JIT means The Reading Shelf will have more frequent deliveries. This means their costs will go up, as they'll have to pay a delivery charge each time.

However, The Reading Shelf will no longer need to rent such a large warehouse to store its books, so costs could go down.

Deliveries from the supplier can occasionally be delayed. By changing to just-in-time stock control, The Reading Shelf will not have stock available when deliveries are delayed and will be unable to fulfil orders to bookshops. This may mean that The Reading Shelf will get a bad reputation. This could reduce The Reading Shelf's revenue.

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Exam Questions

1 E.g. the firm should waste less materials making faulty products it can't sell ***[1 mark]*** as products will be checked at each stage in the production process ***[1 mark]*** which should prevent errors from being made ***[1 mark]***.

Make sure that your answer definitely relates to quality assurance rather than quality control. Quality assurance stops errors from being made in the first place, whereas quality control is about finding faults that have already occurred.

2 a) E.g. Bee's Travel employs two employees whose sole job is to answer website enquiries ***[1 mark]***. / Bee's Travel aims to answer website enquiries within 24 hours ***[1 mark]***.

b) E.g. it will ensure customer queries are answered quickly/accurately ***[1 mark]*** which will improve customer satisfaction ***[1 mark]***. / Staff may be able to recommend additional products to suit a customer's needs ***[1 mark]***, which will increase Bee's Travel's sales ***[1 mark]***. / It will make customers feel confident about buying from Bee's Travel ***[1 mark]*** which is likely to increase sales ***[1 mark]***.

You need to give a brief description of how the training in product knowledge will affect customers or staff for one mark and then the impact that this will have on the business for the second mark.

3 E.g. if customers are satisfied with the level of service they receive from a business, they may be more likely to buy more products from the business in the future / recommend it to friends ***[1 mark]***. This will lead to an increase in revenue ***[1 mark]***. If this increase outweighs any spending on improving customer service, then profits will rise ***[1 mark]***.

Theme 2: Topic 2.4 — Making Financial Decisions

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Case Study — Topics 2.3 and 2.4

1 Checking that quality is being maintained throughout each process involved in making the product ***[1 mark]***.

2 E.g. Marks and Spencer ensures its suppliers provide it with products that are good quality, giving the firm a reputation for high-quality products ***[1 mark]***. This will help to make it more competitive against firms whose suppliers provide lower quality goods ***[1 mark]***.

3 Batch production allows a factory to make a batch of clothes in a particular colour, size or style, and then stop, reorganise and make a batch of something else ***[1 mark]***. All the clothes in a batch will be identical, so using batch production means the factory can take advantage of economies of scale whilst also being able to easily adapt and make many different types of clothes ***[1 mark]***.

4 How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe the impact of M&S's use of just-in-time stock control on their net profit margin, but with little explanation of how it may cause this impact. ***[1 to 2 marks]***

Level 2: There is a good description of how M&S's use of just-in-time stock control may impact their net profit margin, with some explanation of how it may cause this impact. ***[3 to 4 marks]***

Level 3: There is a detailed description of how M&S's use of just-in-time stock control may impact their net profit margin, and a clear explanation of how it may cause this impact. ***[5 to 6 marks]***

Here are some points your answer may include:

Using just-in-time (JIT) stock control means stock levels are kept as low as possible, which would reduce the amount of warehouse space M&S needs, along with associated costs such as labour. This would reduce the company's costs and increase the amount of profit the firm can make.

JIT means perishable food items would be less likely to go out of date, reducing the amount of stock wasted and therefore increasing the company's profitability.

As JIT management is complex, it would require complicated IT systems, which would be expensive to install. This may increase the firm's costs and reduce its profits, but this cost increase will only be temporary — once a system is installed, the financial benefits of the system would outweigh the costs of managing it, increasing profitability.

Getting suppliers to monitor the time products spend at the factory may increase their administrative burden and costs, which could result in higher costs to M&S. However, this is likely to be outweighed by the reduced warehouse costs and reduced waste of perishable goods, and so the profit margin would still be likely to increase.

If the JIT system goes wrong for any reason, there could be gaps in the supply chain, which would reduce sales and negatively impact profits.

JIT means suppliers can't always make use of economies of scale, which could increase M&S's costs and reduce their profits.

'Calculate' Question

net profit margin = net profit ÷ sales (revenue) × 100
= (£364.5 m ÷ £11 988 m) × 100 = **3.04%** (2 d.p.)

[2 marks for the correct answer, otherwise 1 mark for using the correct equation for calculating net profit margin]

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Exam Questions

1 a) £400 000 ***[1 mark]***

b) E.g. the data will not show the reasons why revenue has changed over time ***[1 mark]***, and therefore cannot be used on its own to make business decisions ***[1 mark]***. / There may be many reasons for changes in revenue over time which will not be due to business performance ***[1 mark]***, such as changes in how well the economy is doing ***[1 mark]***.

2 a) total profit = 170 000 + 130 000 + 150 000 + 150 000 + 120 000 – 200 000 = £520 000
average annual profit = 520 000 ÷ 5 = £104 000
average rate of return = (average annual profit ÷ cost of investment) × 100
average rate of return = (104 000 ÷ 200 000) × 100
= **52%**

[2 marks for correct answer, otherwise 1 mark for correct use of average rate of return formula]

b) The average rate of return on the investment is quite large ***[1 mark]***. This means Speedy Wheels should see a large increase in profits compared to the cost of the investment, and so they are more likely to make the investment ***[1 mark]***.

Theme 2: Topic 2.5 — Making Human Resource Decisions

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Exam Questions

1 a) E.g. Claire Wilkinson is likely to be responsible for the overall strategy of Houghton & Son Ltd.'s sales department in the UK ***[1 mark]***.

b) E.g. there is a short chain of command ***[1 mark]*** / each manager has a wide span of control ***[1 mark]***.

c) E.g. as the company grew it would have needed more employees ***[1 mark]***, and so more managers to organise and control them ***[1 mark]***.

2 E.g. effective communication leads to improved staff motivation ***[1 mark]***, as staff will know what is happening in the firm ***[1 mark]*** and therefore will be more confident that they're doing their job properly ***[1 mark]***.

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Case Study — Topic 2.5

1 E.g. It's much cheaper to advertise on noticeboards than it is to advertise in the local or national press. ***[1 mark]***

2 E.g. They will get paid for the work they do. / They get 30% off food at any Lekker branch. ***[1 mark]***

3 E.g. Because supervisors can make their own decisions, they don't need to spend time communicating with the manager ***[1 mark]***. This means changes can be made more quickly. ***[1 mark]***

4 E.g. Having performance targets and performance reviews may make employees feel more motivated ***[1 mark]***. Motivated staff are more likely to stay with the firm — Lekker will not have to replace staff members as often, so their recruitment costs may fall ***[1 mark]***. / Regular reviews allow any problems with how the employee is working or issues they may have with their working conditions to be identified early ***[1 mark]***. This reduces the likelihood of employees leaving and therefore the amount of money the firm needs to spend on recruitment ***[1 mark]***.

'Justify' Question

How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some attempt has been made to recommend which option Lekker should choose, but with little justification. ***[1 to 3 marks]***

Level 2: There is a good description of the advantages and disadvantages of at least one option, along with a recommendation of which one Lekker should choose. There is some reasoning to the recommendation, but it is lacking in detail or not fully justified. ***[4 to 6 marks]***

Level 3: There is a detailed explanation of the advantages and disadvantages of at least one option, with a well-reasoned and fully justified recommendation of which one Lekker should choose. ***[7 to 9 marks]***

Here are some points your answer may include:

Recruiting externally will be more costly as the firm will have to pay to advertise the vacancy.

Recruiting externally will give a wider pool of candidates, which means the firm is more likely to find someone with the required skills. This may reduce the amount of training needed, saving money.

Recruiting internally allows Lekker to hire someone who already knows the firm well, so they might be quicker to settle into the role.

Lekker is likely to have a better idea of an internal candidate's strengths and weaknesses, as they will have seen them in action. This may mean they are better able to judge the person's suitability for the role.

Internal recruitment can be much quicker — as the branch has already opened, Lekker needs to fill the role quickly.

Internal recruitment will leave a vacancy elsewhere that they may then need to recruit internally for.

You need to finish your answer with a conclusion about which option Lekker should choose — make sure you've looked thoroughly at all the information given.
E.g. 'Although the pool of candidates will be smaller, Lekker should recruit internally as this will save them money on advertising and allow them to hire someone quickly that they already know well.'

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Exam Questions

1 a) salaries / commission / promotion ***[1 mark]***

b) Money from commission = (19 000 ÷ 100) × 5 = £950
Total amount paid = £1250 + £950 = **£2200**
[2 marks for correct answer, otherwise 1 mark for calculating the money from commission]

c) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some attempt has been made to recommend what Packman's Glazing should do, but with little justification for why this is the better option. ***[1 to 3 marks]***

Level 2: Some of the advantages and disadvantages of at least one pay scheme have been described, along with a recommendation of which one Packman's Glazing should use. There is some reasoning to the recommendation, but it is lacking in detail or not fully justified. ***[4 to 6 marks]***

Level 3: There is a detailed explanation of the advantages and disadvantages of at least one pay scheme, with a well-reasoned and fully justified recommendation of which one Packman's Glazing should use. ***[7 to 9 marks]***

Here are some points your answer may include:

Paying sales staff commission will make them more motivated to sell, since the more they sell the more they earn. This will lead to higher productivity in the business.

Having motivated staff can also increase staff retention as workers are less likely to want to leave the business. This can reduce recruitment and training costs for the business.

Having motivated staff may also help to attract new employees to the firm, which will make recruiting new staff easier as there are likely to be lots of applicants for vacancies.

However, two of the sales staff have chosen to leave the business, partly because they would prefer to be paid a higher salary but with no commission.

Workers may prefer this pay scheme as it means they get a higher guaranteed income and they don't have the stress of having to sell lots of products in order to increase their income.

But this scheme may mean that productivity falls as the workers are less motivated to perform well. So moving to this pay scheme could mean that Packman's Glazing's profits would fall, as they would be paying their workers more but may experience falling sales.

As the rival firm is new, it may be too early to tell whether their pay scheme is effective at keeping workers motivated enough to stay with the firm long-term and to sell enough products.

You need to finish your answer with a conclusion recommending what you think Packman's Glazing should do — make sure you've looked thoroughly at all the information given. E.g. 'Packman's Glazing should continue with their current pay scheme. Even though this means that they risk losing staff, their workers are likely to be more motivated to perform well, which could lead to more sales and higher profits for the business.'

Practice Paper 1

Pages 150-165

1 a) B ***[1 mark]***

b) D ***[1 mark]***

c) E.g. locating near businesses of the same type means the business will be in direct competition with its neighbours ***[1 mark]***, so customers may choose to shop at the competitor businesses ***[1 mark]*** causing the business to lose sales ***[1 mark]***.

d) Any two from: e.g. social media / websites / email / mobile apps / live chats / video calls ***[2 marks — 1 mark for each correct answer]***

2 a) B ***[1 mark]***

b) C ***[1 mark]***

c) total revenue in 1 month = quantity sold × price
= 1500 × 3.50 = £5250
So, total revenue in 1 year = 5250 × 12 = **£63 000**
[2 marks for correct answer, otherwise 1 mark for correct method]

d) E.g. it may mean that people have less money to spend/less disposable income ***[1 mark]***. This could mean that there is less demand for and fewer sales of the goods or services offered by the business ***[1 mark]***, which could lead to lower profits ***[1 mark]***.

e) E.g. sole traders have unlimited liability ***[1 mark]***, which means if the business goes bust they are legally responsible for paying back all of the business' debts ***[1 mark]***, so may have to sell their possessions ***[1 mark]***.

There are lots of disadvantages you could give, including working long hours, being unincorporated, finding it hard to raise funds, etc. Make sure you state and fully explain one disadvantage to get all three marks.

f) E.g. the business may have more injuries in the workplace ***[1 mark]***. This may make the business less productive ***[1 mark]*** as workers may need time off work after being injured / be unable to work as efficiently while injured ***[1 mark]***.

You could also talk about the possibility of the business having to pay compensation to an injured person, being fined or prosecuted by the government, or the bad publicity it may get. Just be sure to explain both how and why this will affect the business.

3 a) A ***[1 mark]***, E ***[1 mark]***

b) i) May net cash flow = –850 or (850) ***[1 mark]***

The net cash flow is the cash inflow minus the cash outflow, which is 350 – 1200 = –850.

ii) June cash inflow = 1000 ***[1 mark]***

To find this value, look back to the orders coming in in April — this is because these orders will be paid for after the 2 months of credit has passed. You could also find it by adding the net cash flow and cash outflow together, which is –300 + 1300 = 1000

c) E.g. market research can be used to identify customer needs ***[1 mark]***. By changing their marketing mix to satisfy these customer needs ***[1 mark]***, the business can increase sales ***[1 mark]***.

There are lots of things you could say here, such as identifying gaps in the market, reducing risk or making informed decisions. You get one mark for stating one thing the business can use market research for, and an extra two marks for explaining how this will benefit the business.

d) profit = revenue – costs

profit in 2021 = 90 000 – 30 000 – 40 000 = £20 000

profit in 2022 = 110 000 – 40 000 – 40 000 = £30 000

change in profit = 30 000 – 20 000 = £10 000

percentage increase = (10 000 ÷ 20 000) × 100 = **50%**

[2 marks for correct answer, otherwise 1 mark for correct method]

e) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe the purpose of having a business plan, but with little discussion of the consequences to a business. ***[1 to 2 marks]***

Level 2: There is a description of a number of different reasons for writing a business plan, with some discussion of the consequences to a business. ***[3 to 4 marks]***

Level 3: There is a detailed description of the different reasons for writing a business plan, and a clear discussion of the consequences to a business. ***[5 to 6 marks]***

Here are some points your answer may include:

Business plans can help an owner to set up a new business.

This is because they can show whether the business is likely to succeed, and the resources that will be needed to start it.

Business plans can help the owner to make business decisions.

This means that the owner can make decisions that are most likely to benefit the business, which will help it to grow, achieve its aims, and succeed.

Business plans can help the owner to set objectives.

This should help the owner to make decisions that will help the business to succeed.

Business plans can help convince a financial backer that a business idea is a sound investment. This means it may be easier to raise the funds to start the business.

Business plans can show whether a business idea is likely to fail. This means the owner can choose not to continue with the idea early on, before they have wasted too much time or money.

Business plans can show how a business will be organised.

This means the owner can make sure they have the right resources, such as people and money, for the business to run.

4 a) the price ***[1 mark]***

b) E.g. customers will want lower prices ***[1 mark]***, and Oxenforth Tennis Club Ltd. have satisfied this objective by lowering its membership fees by 2.5% ***[1 mark]***.

c) E.g. questionnaires are cheaper than other methods ***[1 mark]***. Questionnaires can be used to easily sample a large number of people ***[1 mark]***.

d) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe how changing the flyers may have affected Oxenforth Tennis Club Ltd.'s sales but with little analysis of why the changes are likely to have had these effects. ***[1 to 2 marks]***

Level 2: There is a description of a number of ways that changing the flyers may have affected Oxenforth Tennis Club Ltd.'s sales, with some analysis of why the changes are likely to have had these effects. ***[3 to 4 marks]***

Level 3: There is a detailed description of how changing the flyers is likely to have affected Oxenforth Tennis Club Ltd.'s sales, and a clear analysis of why the changes are likely to have had these effects. ***[5 to 6 marks]***

Here are some points your answer may include:

Oxenforth Tennis Club Ltd.'s original flyers prioritised showing the appearance of the centre and price of membership.

However, the market research data shows that in 2017, only 5% of respondents said that the appearance of the club is the most important aspect of a tennis club, and this had dropped to 3% by 2022.

In addition, only 25% of respondents said price was the most important aspect of a tennis club in 2017, and this had dropped to 16% by 2022.

The new flyers prioritise the choice of tennis courts, classes and gym equipment, by showing an image of the courts and advertising the classes that people can take, as well as the gym equipment that is available.

In 2022, the choice of courts, classes and equipment was the most popular response for the most important aspect of a tennis club.

The percentage of respondents who said the choice of courts and classes was most important increased from 37.5% to 42% between 2017 and 2022.

So by promoting the choice of courts, classes and equipment at the tennis club, Oxenforth Tennis Club Ltd. are likely to appeal to more customers than they did before. So more customers are likely to sign up for membership and its sales are likely to increase.

5 a) percentage interest = ((total repayment – borrowed amount) ÷ borrowed amount) × 100

= ((£265 750 – £250 000) ÷ £250 000) × 100

= **6.3 %**

[2 marks for the correct answer, otherwise 1 mark for the correct formula]

b) Total extra profit to end of 2022:

£50 000 + £70 000 + £80 000 = £200 000

Total extra profit to end of 2023:

£50 000 + £70 000 + £80 000 + £65 000 = £265 000

Cost of changing rooms = £210 000, which is greater than the £200 000 total extra profit by 2022, but less than the total extra profit by 2018. So the cost was covered by **2023**.

[2 marks for the correct answer, otherwise 1 mark for working showing summation of amounts over successive years]

Make sure you get the year that the total amount has been earned.

6 a) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe how launching the website affected Oxenforth Tennis Club Ltd. but with little analysis of why the website is likely to have had these effects. ***[1 to 2 marks]***

Level 2: A number of effects of launching the website on Oxenforth Tennis Club Ltd. have been described, with some analysis of why the website is likely to have had these effects. ***[3 to 4 marks]***

Level 3: There is a detailed description of the effects that launching the website are likely to have had on Oxenforth Tennis Club Ltd., and a clear analysis of why the website is likely to have had these effects. ***[5 to 6 marks]***

Here are some points your answer may include:

The website is more convenient for the customers of Oxenforth Tennis Club Ltd., as it means that they can book online and don't have to phone or go into the club in person to book a class or tennis court. They can also join the club online, so the convenience may have increased membership and sales.

By keeping up with technology, Oxenforth Tennis Club Ltd. may have attracted a different segment of the market, as younger customers may use online services more than other age groups.

Customers may find it easier and quicker to pay online, and this may have increased membership and booking of classes/courts, therefore increasing the tennis club's revenue.

Launching a website makes more information available to customers, and so would have allowed the tennis club to communicate information/events to their customers quickly.

The website will have been expensive to develop, so this will have increased the costs for Oxenforth Tennis Club Ltd., and therefore may have led to reduced profits.

Customers may not want to pay with their debit/credit card online if the payment system isn't secure (compared to PayPal or paying in person). So people may not have used the online payment system, and the website might not have increased membership/sales.

Not all customers are comfortable using websites, so they might not have used the online system to book courts/classes/pay their membership.

b) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to recommend which improvement Oxenforth Tennis Club Ltd. should make, but with little explanation for why this should be done. ***[1 to 3 marks]***

Level 2: Some of the advantages and disadvantages of at least one option for improving the tennis club have been given, along with a recommendation of what Oxenforth Tennis Club Ltd. should do. There is some justification to the recommendation, but it is lacking in detail or not fully explained. ***[4 to 6 marks]***

Level 3: There is a thorough description of the advantages and disadvantages of at least one option for improving the tennis club, with a detailed recommendation of what Oxenforth Tennis Club Ltd. should do that has been fully explained and justified. ***[7 to 9 marks]***

Here are some points your answer may include:

Option 1:

Oxenforth Tennis Club Ltd.'s customers are likely to be more satisfied if they buy more up-to-date exercise machines, since 42% of them said in the most recent survey that the choice of tennis courts, equipment and classes was the most important aspect to them. This is a slightly greater percentage than those who said that the opening hours were the most important aspect to them (39%), so it may be more beneficial than extending the opening hours.

There has been an increase of 4.5% of customers saying that the choice of tennis courts, classes and gym equipment are the most important aspect to them since 2017, suggesting that the choice of courts, classes and gym equipment has become more important to customers. Therefore buying more up-to-date exercise machines may also attract new customers.

However, the choice of courts, classes and gym equipment may depend on other things, such as having a greater variety of tennis courts, or more classes. So buying up-to-date exercise machines may not have a big impact on the choice that customers have.

It may also be costly for Oxenforth Tennis Club Ltd. to buy the up-to-date exercise machines, and it may have to provide training to staff and customers on how to use them safely.

Option 2:

In 2022, 39% of customers said that the opening hours were the most important aspect to them, so extending the opening hours may lead to an increased number of satisfied customers.

There has been an increase of 6.5% of customers saying that the opening hours are the most important aspect for them, since 2017. This is a greater increase than for the choice of courts, classes and gym equipment, so the opening hours have increased in importance by a greater degree than the choice of courts, classes and gym equipment. Therefore it may be more beneficial for Oxenforth Tennis Club Ltd. to extend the opening hours.

However, extending the opening hours may affect the running of the tennis club, since Oxenforth Tennis Club Ltd. will have to employ enough staff to cover the extra operating times.

It may also increase the costs, as Oxenforth Tennis Club Ltd. will have to pay for things such as wages and electricity for the extra hours the tennis club is open.

You need to finish your answer with a conclusion justifying which option you think would be better — make sure you've looked thoroughly at all the information given. E.g. 'Oxenforth Tennis Club Ltd. should buy up-to-date exercise machines. Although this may be costly, the tennis club is likely to have more satisfied customers and it won't affect the running of the tennis club.'

7 a) The proportion of the total sales within a market that is controlled by a business ***[1 mark]***.

b) £1000 ***[1 mark]***

c) break-even output = 5000 units
margin of safety = 9000 – 5000 = **4000 units**
[2 marks for correct answer, otherwise 1 mark for correct break-even output]

d) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to recommend which option Raymer's Ltd. should choose, but with little explanation for why this should be done. ***[1 to 3 marks]***

Level 2: Some of the advantages and disadvantages of at least one option have been given, and some of the effects on profit, along with a recommendation of what Raymer's Ltd. should do. There is some justification to the recommendation, but it is lacking in detail or not fully explained. ***[4 to 6 marks]***

Level 3: There is a thorough description of the advantages and disadvantages of at least one option, and its effects on profit. There is a detailed recommendation of what Raymer's Ltd. should do that has been fully justified and explained. ***[7 to 9 marks]***

Here are some points your answer may include:

Option 1:

The pressure group's campaign is highlighting the use of pesticides in bean farming, and encouraging people to buy organic bean products. If Raymer's Ltd. begin making organic baked beans, they will be able to take advantage of any increase in demand for organic products.

If Raymer's Ltd. makes a range of organic baked beans, it may be able to target a different market segment. People who buy organic food may be willing to pay more for products, so Raymer's Ltd. may increase its revenue and its profits.

Having an organic option available may mean customers who agree with the pressure group's campaign will buy this product instead, and so Raymer's Ltd may keep them as customers and it may not lose profits as a result.

However, it may still face some negative publicity from the pressure group, as it still produces non-organic bean products.

It costs a lot of money to launch a new range of products, as new marketing materials, packaging, etc, must be developed and produced. This will increase costs and may lower profit.

In addition, to make organic baked beans, Raymer's Ltd. may have to find new suppliers for some of its other ingredients so that they are also organic. This may increase costs further. This means it may have to charge higher prices or make a smaller profit on the new products.

If it charges higher prices, it may mean that it attracts fewer customers, further decreasing profits.

If it makes a smaller profit on the new products, the new range may not make enough profit to be worthwhile.

Option 2

If Raymer's Ltd doesn't make organic baked beans it may suffer from the bad publicity from the pressure group. People may be less willing to buy beans that have been grown with pesticides, and so the sales and profits might go down.

However, lowering prices may make it so Raymer's Ltd. is less effected by the actions of the pressure group, as customers may prioritise the greater value for money of Raymer's Ltd's products over the ethical concerns of the pressure group. This means its sales may not decrease as much.

If Raymer's Ltd. lowers its prices, it may be able to target a lower income market segment. This may attract more customers to buy its baked beans, and so it may increase its sales and profits.

However, lowering its prices without reducing costs means that Raymer's Ltd. will make less profit on each product sold. This will reduce their overall profits, unless they can increase their sales.

You need to finish your answer with a conclusion recommending what you think Raymer's Ltd. should have done — make sure you've looked thoroughly at all the information given. E.g. 'Raymer's Ltd. should launch a new range of organic baked beans. Although this may increase costs, it is likely to attract customers who agree with the pressure group, and who otherwise may have stopped buying from Raymer's Ltd. and may be more willing to pay a higher price for organic produce.'

e) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some advantages and disadvantages of Raymer's Ltd.'s efforts to maximise sales are given, but with little explanation of whether Raymer's Ltd. would have benefitted overall. ***[1 to 4 marks]***

Level 2: There is a detailed description of the advantages and disadvantages of Raymer's Ltd.'s efforts to maximise sales. There is some attempt to conclude whether Raymer's Ltd. would have benefitted overall, but with little or no explanation to justify the conclusion. ***[5 to 8 marks]***

Level 3: There is a detailed and thorough analysis of the advantages and disadvantages of Raymer's Ltd.'s efforts to maximise sales. A conclusion has been made as to whether Raymer's Ltd. would have benefitted overall, which has been fully justified using evidence. ***[9 to 12 marks]***

Here are some points your answer may include:

Working towards maximising sales means a business will look to grow its market share. An increased market share can lead to increased revenue and profit.

Taking on new customers meant that Raymer's Ltd. will have made more sales. This could have led to an increased market share and perhaps increased revenue and profits.

Increasing its output means Raymer's Ltd. had more stock to sell, allowing it to keep up with increasing sales, and giving it greater opportunity to make more sales.

Sales can increase if a business has a good reputation, and shows it is meeting its customers' needs.

Raymer's Ltd. agreed to use different labels for the supermarket's orders, which will have satisfied the customer's individual needs. This is likely to have improved the reputation of the business, which may lead to more sales in future.

However, the percentage of products that were returned increased after Raymer's Ltd. took on new customers. Supplying customers with poor quality products is a sign of poor customer service and is likely to have harmed the reputation of the business. This means that customers might be less likely to buy its products in future, which will decrease sales and revenue.

Consumer law states that a product must match its description and must be of satisfactory quality.

Following the increase in output, Raymer's Ltd. had a problem with products being returned because they contained a lower weight of produce than was stated on the label. This is breaking consumer law, as the product does not match its description.

Raymer's Ltd. also had more products returned because of loose labels and dented tins. These factors mean that the products weren't of satisfactory quality, which is breaking consumer law.

Raymer's Ltd. also refused to give refunds to customers, which is also breaking consumer law.

Businesses face consequences for breaking consumer law.

Raymer's Ltd. may be prosecuted and fined for breaking the law, which would cost them money.

Regularly breaking consumer law, and being taken to court for doing so, would have damaged the reputation of the business, and reduced the number of customers that want to buy its products.

You need to finish your answer with a conclusion about whether or not Raymer's Ltd. has benefitted from its efforts to maximise sales. Make sure you've looked thoroughly at the information given. E.g. 'Although the attempts to maximise sales may have increased Raymer's Ltd.'s market share, the increased problems with the quality of products meant that Raymer's Ltd. broke consumer law. Quality issues were then not dealt with correctly, which may have caused Raymer's Ltd. to lose its reputation, causing the business to lose sales and revenue. Therefore the efforts to maximise sales have not benefitted Raymer's Ltd.'

Practice Paper 2

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1 a) A ***[1 mark]***

b) A ***[1 mark]***

c) E.g. having effective procurement and logistics means the business can make sure its supplies are good quality ***[1 mark]***, which will help it to attract/keep customers ***[1 mark]*** and so increase/maintain sales/market share ***[1 mark]***.

There are a few things you could talk about here, such as ensuring the best price for materials, making sure processes are run efficiently and building trust with a supplier. Make sure you've given a description of the benefit, and then explained how this will have a positive effect on the business.

d) total finance used = 2500 + 3500 + 1000 = £7000

% which is share capital = (2500 ÷ 7000) × 100

= 35.714...% = **35.7%** (to 3 s.f.)

[2 marks for correct answer, otherwise 1 mark for correctly calculating total finance]

2 a) D ***[1 mark]***

b) B ***[1 mark]***, D ***[1 mark]***

c) gross profit margin = (gross profit ÷ sales revenue) × 100

= (690 000 ÷ 3 000 000) × 100 = **23%**

[2 marks for correct answer, otherwise 1 mark for substitution into the correct formula]

d) The gross profit margin on each cupcake is 85%. So the cost of making the cupcake is equal to 100 – 85 = 15% of the price.

So, 1% of the price = £0.30 ÷ 15 = £0.02

So, the price of one cupcake = £0.02 × 100 = **£2.00**

[2 marks for correct answer, otherwise 1 mark for correct method]

e) Fringe benefits are any rewards given to workers that are not part of their main income ***[1 mark]***. They can mean that e.g. employees can save money ***[1 mark]***, which may make them feel motivated to work for the business ***[1 mark]***.

3 a) D ***[1 mark]***

b) E.g. large businesses can buy supplies in bulk ***[1 mark]***, which means they can get them at a cheaper unit price than small firms ***[1 mark]***, which reduces costs and may increase profit ***[1 mark]***.

You could also have talked about things such as how larger firms can use more machinery that may make processes more efficient, or that they can have larger premises that may be cheaper per unit size.

c) total profit = 170 000 + 130 000 + 150 000 + 150 000 + 120 000 – 200 000 = £520 000

average annual profit = 520 000 ÷ 5 = £104 000

average rate of return = (average annual profit ÷ initial investment) × 100

average rate of return = (104 000 ÷ 200 000) × 100 = **52%**

[2 marks for correct answer, otherwise 1 mark for substitution into the correct formula]

d) E.g. it's important so that the company's overall brand image remains strong ***[1 mark]***, since this will mean that all of the company's products will be more easily recognised ***[1 mark]*** and will be more likely to be bought by customers that are familiar with the brand ***[1 mark]***.

e) E.g. charging a low price will encourage people to try a new product ***[1 mark]***. This makes it easier for a firm to make sales of the product ***[1 mark]*** and establish a market share in a competitive market ***[1 mark]***.

f) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is some attempt to describe some consequences of training staff, but with little discussion of why these consequences benefit the business. ***[1 to 2 marks]***

Level 2: A number of consequences of training staff have been described, with some discussion of why these consequences benefit the business. ***[3 to 4 marks]***

Level 3: There is a detailed description of the consequences of training staff, and a clear discussion of why these consequences benefit the business. ***[5 to 6 marks]***

Here are some points your answer may include:

Training staff makes them better at their jobs, which can mean they work faster.

This can make a business more productive and lower its average unit costs.

Having staff that are better at their jobs is also likely to mean that they can offer a high level of customer service and produce high quality goods. Both of these things may lead to increased sales for the business.

Training can equip staff with new skills. This may be beneficial if the business currently has skill shortages in certain areas, which hinder its success.

Equipping staff with new skills could also help the development of the business if it needs to change the way it operates.

Training can help staff keep up to date with technology.

This can give the business a competitive advantage, and may make it more productive.

Training staff is likely to motivate staff.

This can increase staff retention, which means the business won't have to recruit and train new staff so often, which will decrease its costs.

4 a) Globalisation is the process by which businesses and countries around the world become more connected ***[1 mark]***.

b) E.g. Selling online allows Amazon to reach a global market ***[1 mark]***, since people will be able to buy products from the website anywhere in the world ***[1 mark]***.

c) (–$2.7 bn – $33.4 bn) ÷ $33.4 bn × 100
= –$36.1 bn ÷ $33.4 bn × 100 = –108%
= **a decrease of 108%** ***[2 marks for correct answer, otherwise 1 mark for correctly calculating –$2.7 bn – $33.4 bn]***

d) How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: There is some attempt to describe the impact that investing in new technology may have on Amazon, but with little explanation of why it may have this impact. ***[1 to 2 marks]***
Level 2: There is a good description of the impact that investing in new technology may have on Amazon, with some explanation of why it may have this impact. ***[3 to 4 marks]***
Level 3: There is a detailed description of the impact that investing in new technology may have on Amazon, and a clear explanation of why it may have this impact. ***[5 to 6 marks]***

Here are some points your answer may include:

Investing in robotics systems like Sparrow has allowed Amazon to run its warehouses more efficiently. This is likely to mean that customer orders can be sent out more quickly, which may lead to higher levels of customer satisfaction and an increase in sales.

Having advanced computer systems which track customers' products as they are packaged and labelled is likely to reduce the time it takes products to leave the warehouses and reduce the number of mistakes made by human error. This is likely to make the packing and shipping process more efficient and may mean that customer orders can be sent out more quickly. Again this may lead to higher levels of customer satisfaction and an increase in sales.

However, investing in new technology, such as Rivian vehicles and Kiva systems has been very expensive for Amazon. Buying Kiva Systems cost $775 million and on top of this they have to pay to maintain the robotics systems. The investment in Rivian had a big impact on Amazon's overall profitability in 2022. This may mean the firm can't invest as much in growing the business in other areas.

5 a) Advantage: e.g. internal recruitment is cheaper than external recruitment / internal candidates will know more about the firm than external candidates / bosses may know internal candidates well ***[1 mark]***.
Disadvantage: e.g. the internal candidate's move will leave a vacancy to fill / the job advert will probably be seen by fewer people than if it were advertised externally ***[1 mark]***.

b) E.g. allowing staff to work flexible hours may make staff feel more motivated as they can more easily fit other responsibilities around their work ***[1 mark]***. This could make Amazon's employees more productive, which may improve efficiency and reduce costs ***[1 mark]***.

c) How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: There is some attempt to describe the impact that having a decentralised structure may have on Amazon, but with little explanation of why it may have this impact. ***[1 to 2 marks]***
Level 2: There is a good description of the impact that having a decentralised structure may have on Amazon, with some explanation of why it may have this impact. ***[3 to 4 marks]***
Level 3: There is a detailed description of the impact that having a decentralised structure may have on Amazon, and a clear explanation of why it may have this impact. ***[5 to 6 marks]***

Here are some points your answer may include:

The company operates in over 30 countries, which could make it difficult for a few managers at the top to make all the major decisions. Having a decentralised structure means that regional managers/junior employees in each of the countries Amazon operates in are able to make decisions. This is likely to mean that decisions are relevant/appropriate for that country, which will make the business more efficient.

Having specialised customer service centres and software development offices means that employees in those sectors can make decisions using their expert knowledge, without having to consult senior managers, so changes to the business can be made more quickly. This will reduce time spent communicating and making decisions. This will make Amazon more competitive.

A decentralised structure also means that the company's senior managers are not responsible for making as many decisions, so there may be fewer senior managers required and less need for a central office, which will reduce the business' costs.

However, a decentralised structure can mean that there are inconsistencies between different parts of the business or different countries, which could cause problems/errors that waste time or cost Amazon money.

A decentralised structure also means that some jobs are duplicated across regions, which may cost the business more than if there was more of a centralised structure.

d) How to grade your answer:
Level 0: Nothing worthy of credit. ***[No marks]***
Level 1: Some attempt has been made to recommend whether or not Amazon should roll out their Frustration-Free Packaging programme to all products, but with little justification for why this should be done. ***[1 to 3 marks]***
Level 2: Some of the advantages and disadvantages of Amazon rolling out their Frustration-Free Packaging programme to all products have been given along with a recommendation of what Amazon should do. There is some reasoning to the recommendation, but it is lacking in detail or not fully justified. ***[4 to 6 marks]***
Level 3: There is a detailed explanation of the advantages and disadvantages of Amazon rolling out their Frustration-Free Packaging programme to all products, with a well-reasoned and fully justified recommendation of what Amazon should do. ***[7 to 9 marks]***

Here are some points your answer may include:

Amazon's Frustration-Free Packaging programme means that the packaging must protect the product, requires no extra packaging by Amazon and is recyclable. Amazon is a large company, with lots of products on sale, so rolling this programme out to all of its products would mean that it has the potential to save a huge amount of packaging and reduce waste, which is good for the environment.

Reducing the amount of packaging should have other beneficial environmental effects, such as reducing the amount of transport needed for the same number of products. This should benefit Amazon and the sellers of the product, by reducing costs. If these environmental advantages are promoted well, they may encourage more customers to shop with Amazon or to keep using Amazon, which could increase sales and profit for Amazon and also the sellers.

One of the criteria for the Frustration-Free Packaging is for it to be easy to open, which could also increase customer satisfaction, and increase sales and profit for Amazon and the sellers.

The sellers of the products to Amazon have access to helpful tools, such as a website and support system, which should mean that sellers find it easier to change their packaging to meet the criteria of the programme where they need to.

Also, if Amazon adopts a credit system, like it did for the large and heavy goods to be certified by 1st August 2019, this will help sellers with the costs of changing their packaging.

However, some sellers may find changing their packaging too difficult to carry out. Others may find it too expensive to carry out and that the credit given by Amazon may not cover all their costs. For these reasons Amazon may lose sellers and their products. If they have fewer products to sell it could affect their overall profit.

Also, the items that Amazon required to be certified as having Frustration-Free Packaging were larger items, because they tend to have more packaging waste than smaller items. This means that, for smaller products, there won't be as many beneficial environmental and cost advantages.

You need to finish your answer with a conclusion recommending what you think Amazon should do — make sure you've looked thoroughly at all the information given. E.g. 'Amazon should roll out their new Frustration-Free Packaging programme to all products. It has a lot of environmental benefits, which make the company more sustainable, should attract more customers and lead to more benefits like reduced transport. All these things should lead to increased sales and/or profit for both Amazon and the sellers, and outweigh the potential disadvantages of losing some sellers due to the programme.'

6 a) E.g. other firms may have had to change how they operate ***[1 mark]*** in order to compete with the greater resources of a multinational business like L'Oréal ***[1 mark]***.

b) E.g. by promoting itself as a sustainable company, L'Oréal may be able to attract customers who are interested in protecting the environment ***[1 mark]***, which may increase sales ***[1 mark]***.

c) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: Some attempt has been made to recommend whether L'Oréal should expand its current factories or build new ones in other countries, but with little justification for why this should be done. ***[1 to 3 marks]***

Level 2: Some of the advantages and disadvantages of at least one of L'Oréal's options have been given, along with a recommendation of what L'Oréal should do. There is some reasoning to the recommendation, but it is lacking in detail or not fully justified. ***[4 to 6 marks]***

Level 3: There is a detailed explanation of the advantages and disadvantages of at least one of L'Oréal's options, with a well-reasoned and fully justified recommendation of what L'Oréal should do. ***[7 to 9 marks]***

Here are some points your answer may include:

Option 1

L'Oréal already has established factories in India and Indonesia, so expanding these factories is likely to be less expensive than building new factories. They also have systems in place to make some of the existing factories more sustainable, which may also make it cheaper to expand the current factories.

Because L'Oréal already has factories in India and Indonesia, they may find it easier to recruit more employees in the same area. This will reduce the amount of time and money spend on recruitment.

However, making all the products in India and Indonesia means that they will have to export products to other South Asian countries, which may make the products more expensive because of import taxes and exchange rates. They might have to then charge higher prices, which would make customers less likely to buy their products.

Option 2

Building new factories means that L'Oréal will not have to import products between countries, which will keep their costs and prices lower. This might mean that customers are more likely to buy their products.

Labour costs might be lower in some of the countries, which will reduce the amount that L'Oréal has to pay its employees, reducing the fixed costs of the company.

Building new factories means that L'Oréal can hire employees who have relevant expertise for the countries that the factories are in, which might make the business more efficient and able to target that country's market better.

However, not having any existing factories in these countries may make it harder to recruit workers, so more time and money may be needed to promote these vacancies as desirable positions.

Also, in some countries the labour costs may be higher than in India and Indonesia, which would increase the fixed costs and may mean that L'Oréal charges higher prices for its products.

Building a new factory in each country will be expensive, especially if L'Oréal wants to make them all sustainable, which will reduce how profitable L'Oréal is for the next few years.

You need to finish your answer with a conclusion about which option you think L'Oréal should take, making sure that you've considered the advantages and disadvantages of the two options. E.g. 'Although exporting goods might make costs higher, L'Oréal should expand their existing factories to make more products to sell throughout South Asia. It is likely to be less expensive to expand factories than build new ones, and they are likely to be able to hire more employees quickly.'

d) How to grade your answer:

Level 0: Nothing worthy of credit. ***[No marks]***

Level 1: There is a basic description of some of the impacts that the marketing strategy in India is likely to have on L'Oréal. There is little attempt to conclude whether L'Oréal will benefit from this strategy overall, with little or no justification. ***[1 to 4 marks]***

Level 2: There is a basic explanation of the impacts that the marketing strategy in India is likely to have on L'Oréal. There is a conclusion as to whether L'Oréal is likely to benefit from the strategy, but the justification is lacking in detail. ***[5 to 8 marks]***

Level 3: There is a detailed and thorough analysis of how the marketing strategy in India is likely to affect L'Oréal. A conclusion has been made as to whether L'Oréal is likely to benefit from the strategy, which has been fully justified using evidence. ***[9 to 12 marks]***

Here are some points your answer may include:

The marketing mix includes product, price, promotion and place.

L'Oréal have adjusted the products they sell in India in response to market research about customer needs in the country.

For example, L'Oréal sell shampoo in a larger range of sizes than they do in other countries, including in sachets for a single use, as market research showed these sachets sell well.

However, developing these products may be expensive, so may have increased L'Oréal's costs.

Manufacturing a larger range of products could increase L'Oréal's manufacturing costs, as they may have to invest in different machines that are capable of making all the products.

So increasing their product range could lead to lower profit per item sold.

These sachets allow L'Oréal to sell shampoo at low prices that people in less affluent areas can afford. This means that customers in less affluent areas are more likely to buy L'Oréal's products. This will increase L'Oréal's sales in India.

L'Oréal have used a price skimming strategy by pricing its products slightly above its competitors. This should help to make L'Oréal seem like a luxury brand, and make it more desirable. This should help to increase demand.

By keeping the price in the same range as its competitors, L'Oréal shouldn't lose too much demand from people who would rather buy cheaper products.

L'Oréal have chosen to distribute their products through small, independent retailers, as well as larger chain stores.

As market research has shown that the majority of consumers in India use small retailers, this should mean that L'Oréal's products reach a large proportion of people in the country.

This means that more people are likely to buy their products, which should help to increase sales.

However, L'Oréal will have to organise delivery to a large number of small, individual stores. This could increase costs for L'Oréal.

L'Oréal is using e-commerce to target more rural areas of India. As people in these areas may be further from traditional retail outlets, it could open up a new market for L'Oréal, which will increase sales.

However, setting up e-commerce may be expensive, as it may require L'Oréal to recruit specialist website or app developers.

It also means L'Oréal will have to arrange delivery to individual customers all over the country, which is likely to be expensive. So using e-commerce is likely to increase costs.

You need to finish your answer with a conclusion about whether or not L'Oréal will have benefitted from its marketing strategy in India — make sure you've looked thoroughly at all the information given. E.g. 'Although adapting the marketing strategy is likely to have increased costs for L'Oréal, for example by developing new products, L'Oréal has been able to target its strategy to respond to market research in India. This should mean that L'Oréal is likely to appeal more to consumers in the country. This should benefit L'Oréal by leading to increased sales, and increased profits overall.'

Glossary

advertising	Any message that a firm pays for, which promotes the firm or its products.
aim	An overall goal that a business is trying to achieve.
ARR	The average rate of return on an investment.
asset	A valuable item owned by a business, or money owed to the business.
authority	Power that people in an organisational structure have over the people in the layers below.
autonomy	Where a worker is given the freedom to make their own decisions in their job.
average unit cost	How much each product costs to make (calculated by dividing total costs by output).
bar gate stock graph	A graph that is used to manage a business' stock levels.
batch production	A method of production in which a firm makes one batch of identical items at a time.
bonus	A lump sum added to an employee's pay, usually once a year.
brand image	The impression that customers have of a business or the products it sells.
break-even level of output	The level of output at which a firm's total revenue equals its total costs.
business enterprise	The process of identifying new business opportunities, and then taking advantage of them.
business plan	An outline of what a business will do and how it aims to do it.
capital	A firm's wealth in the form of money or other assets.
cash	The money a business can spend immediately.
cash flow	The flow of all money into and out of a business.
cash inflow	Money that flows into a business.
cash outflow	Money that flows out of a business.
centralised organisation	An organisation in which all major decisions are made by one person or a few senior managers at the top of the organisational structure.
chain of command	The chain connecting directors to operatives in an organisational hierarchy.
commission	Money paid to sales staff for every item they sell on top of their basic salary.
competitive pricing	A pricing strategy in which a firm charges similar prices to other firms that sell similar products.
competitor	A business which sells the same products in the same market as another business.
consumer	The person who uses a good or service.
contract of employment	A legal agreement between an employee and their employer about a job.
cost	An expense paid out to run a business.
credit	An agreement that a customer will pay for something at a later date.
credit terms	The terms of a credit agreement that tell a customer how long they have to pay.
crowd funding	When a large number of people each contribute money towards funding a new business or a business idea.
customer service	Any interaction a business has with its customers.
CV (curriculum vitae)	A summary of a person's personal details, skills, qualifications and interests.
decentralised organisation	An organisation in which the authority to make most decisions is shared between people at different layers of the organisational structure.
delegation	Passing tasks or responsibilities onto another person.
demand	How much of a product people will be willing to buy at a given price.
design mix	The different elements of design needed to make a product successful, including its function, cost and aesthetics.
differentiation	Making goods or services distinctive in the market.
diseconomy of scale	Where growth can lead to an increase in average unit cost.

dividend	A payment that a shareholder gets if the company makes a profit.
e-commerce	Buying and selling products on the internet.
e-tailer	A business that sells products online.
economy of scale	A reduction in average unit cost that comes from producing on a large scale.
entrepreneur	Someone who takes on the risks of enterprise activity.
exchange rate	A value that tells you how much one unit of a currency costs in a different currency.
extension strategy	An action intended to extend the life of a product.
external (inorganic) growth	When a business grows by merging with or taking over another firm.
external recruitment	Where a business recruits new people from outside the business.
fixed asset	An asset that a business keeps long-term or uses repeatedly — e.g. property, equipment, land, computers.
fixed cost	A cost that does not vary with output.
flat structure	An organisational structure with very few layers.
flexible working	When working hours and patterns are adapted to suit the employee.
flow production	A method of production in which all products are identical and are made as quickly as possible.
formal training	A method of training which has a set plan with learning objectives and a schedule.
franchise	Where a business lets another firm sell its products or use its trademarks in return for a fee or a percentage of the profits.
freelance contract	When a self-employed person is recruited by a business on a temporary basis, usually to work on a specific project.
fringe benefit	Any reward for an employee that is not part of their regular income.
full-time staff	Employees that generally work 35-40 hours a week.
gap in the market	A customer need that isn't being met.
globalisation	The process by which businesses and countries around the world become more connected.
gross profit	The profit left over once the cost of sales has been taken away from the total revenue.
gross profit margin	The fraction of every pound spent by customers that doesn't go towards making the product.
hierarchical structure	An organisational structure with lots of layers.
human resources	The people needed to run a business, or the department that organises people in a firm.
incorporated	A business that has its own legal identity.
inflation	An increase in the price of goods and services.
informal training	A method of training which has no strict plan and is usually given by other workers.
insolvency	When a firm is unable to pay its debts.
interest rate	A value which shows the cost of borrowing money or the reward given for saving money.
internal (organic) growth	When a business grows by expanding its own activities.
internal recruitment	Where existing employees are recruited into new roles within a business.
investment	Money which is put into a business to make improvements in order to make the business more profitable.
job analysis	A process in which every little detail of a job is thought about.
job description	A written description of what a job involves.
job enrichment	Where a worker is given greater responsibility in their job.
job production	A method of production in which each product has a unique design based on the customer's specification.
job rotation	Where a worker is occasionally moved from one job to another.
just-in-time (JIT)	A method used in production or stock management in which stock levels are kept at a bare minimum — products are made just in time for delivery to customers.
limited liability	Where the owners of a business are not legally responsible for all the debts a business has.
loan	A long-term source of money that must be paid back to the lender.

logistics	Getting goods or services from one part of the supply chain to another.
loss	Where the total costs for a company over a period of time are greater than its revenue.
loss leader pricing	A pricing strategy in which the price of a product is set below cost.
margin of safety	The gap between current level of output and the break-even level of output.
market	A place where goods are traded between customers and suppliers, trade in a particular type of product or the potential customers for a product.
market map	A diagram showing some of the features of a market.
market research	Investigation of the features of a market and customer opinions within the market.
market share	The proportion of total sales within a market that is controlled by a business.
market size	The number of individuals (including businesses) within a market that are potential buyers and sellers of products, or the total value of products in the market.
marketing mix	The four elements that must be considered for good marketing: product, price, promotion and place.
mass market	A large group of potential customers for a product.
merger	When two firms join together to form a new, larger firm.
multinational	A single business that operates in more than one country.
net profit	The profit left over when all costs are taken into account.
net profit margin	The fraction of every pound spent by customers that the company gets to keep.
niche market	A small and specialised group of potential customers for a product.
objective	A measurable step that a business will set in order to work towards an aim.
obsolete	When a product is no longer used, usually because it has become out-dated and has been replaced by something else.
overdraft	When more money is taken out of a bank account than has been paid into it.
part-time staff	Employees that generally work 10-30 hours a week.
partnership	A business ownership structure in which a small number of people (usually between 2 and 20) own an unincorporated business.
performance review	A system for assessing an employee's progress and helping them to develop.
permanent contract	A contract of employment that has no end date.
person specification	A list of the qualifications, experience, skills and attitudes a person needs for a particular job.
pressure group	An organisation that tries to influence what people think about a certain subject.
price penetration	A pricing strategy in which a firm charges a very low price for a product when it is new.
price skimming	A pricing strategy in which a firm charges a high price for a product to begin with.
primary research	Market research that involves getting information from customers or potential customers.
private limited company	A business ownership structure that is incorporated and has shares, but the shares can only be sold with the agreement of all the shareholders.
procurement	The act of finding and buying things that a business needs from outside of the business.
product life cycle	The different stages that a product goes through over time.
productivity	How many products are made in a certain amount of time or for a certain amount of money.
profit	The difference between revenue and costs over a period of time.
promotion	When an employee is given a higher status or position within a firm.
public limited company	A business ownership structure that is incorporated and has shares that can be bought and sold by anyone.
qualitative information	Information that can't be expressed as a number, e.g. data involving people's feelings or opinions.
quality assurance	A way of maintaining quality by checking that quality standards are being met throughout each process involved in making a product.
quality control	A way of maintaining quality by checking products for faults at certain stages during the production process.
quantitative information	Information that can be measured or reduced to a number.

remote working	When an employee works in a location away from their employer's offices, e.g. at home.
remuneration	Payment to an employee for the work they have done for an employer.
retailer	A business that sells products to consumers.
retained profit	Profit that is put back into the business.
revenue	The value of all products sold in a given time period.
salary	A fixed payment that is made to employees every month.
sales process	The method by which a business sells items to its customers.
sales promotion	A short-term method used to boost a firm's sales, e.g. 2 for 1 offers.
secondary research	Market research that involves looking at data from outside the business, e.g. market reports.
segmentation	When people within a market are divided into different groups.
self-learning	Where an employee seeks out their own training and development.
share	A unit of ownership in a company. Owners of shares can share in the profits of the company.
share capital	Money gained through issuing shares in the company.
sole trader	A business ownership structure where one person owns an unincorporated business.
span of control	The number of workers who report to one manager in a hierarchy.
sponsorship	A method of promotion in which a business gives money to an organisation or event. In return the organisation or event displays the business' name.
staff retention	When a business keeps its staff.
stakeholder	Any individual or group of people that is affected by a business.
start-up capital	The money or assets needed to set up a business.
stock market	A market where shares of public limited companies can be bought and sold.
supply chain	The group of firms that are involved in all the various processes required to make a finished product available to the customer.
sustainability	Working in a way that doesn't damage the Earth for future generations.
takeover	When an existing business expands by buying more than half the shares in another firm.
tariff	A tax on goods that are being imported or exported.
temporary contract	A contract of employment that is only for a fixed period of time.
total cost	The fixed and variable costs for a business added together.
trade bloc	A group of countries that has few or no trade barriers between them.
trade credit	When a business gives firms time to pay for certain purchases.
unincorporated	A business that doesn't have its own legal identity.
unique selling point (USP)	A feature or set of features that makes a product different from its competitors.
unlimited liability	Where the owners of a business are legally responsible for all the debts a business has.
variable cost	A cost that will increase as a firm increases output.
venture capital	Money raised through selling shares to individuals or businesses who specialise in giving finance to new or expanding small firms.
viral advertising	When adverts are shared and viewed many (perhaps millions of) times in a short time period, often via social media.
wage	Payment that is usually made to employees weekly or monthly.
zero hour contract	A contract of employment which means the employer doesn't have to offer the employee any work at all and the employee doesn't have to accept any work that is offered to them.

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